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No. 02-

IN THE

Supreme Court of the United States

TY INC.,

Petitioner,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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105 pp

QUESTION PRESENTED

Whether the Seventh Circuit erred in holding – in conflict with this Court's precedents and decisions of other circuits – that the factors that Congress directed "shall" be considered in determining fair use in "any particular case" under the Copyright Act are irrelevant as a matter of law, and that the fair use doctrine grants a right to use as much copyrighted material as is necessary to compete in the marketplace against copyrighted works or licensed derivatives.

STATEMENT PURSUANT TO RULE 29.6

Petitioner, Ty Inc., has no parent corporation and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Ty Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit in this case.

OPINIONS BELOW AND JURISDICTION

The opinion of the Seventh Circuit (Pet. App. 1a-22a) is reported at 292 F.3d 512. The opinions of the district court (*id.* 23a-63a) are unpublished. The court of appeals issued its opinion on May 30, 2002, and denied rehearing and rehearing en banc on July 11, 2002. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

RELEVANT CONSTITUTIONAL AND STATUTORY PROVISIONS

The Copyright Clause of the Constitution and the relevant provisions of the Copyright Act are reproduced in the Appendix at 66a-68a.

STATEMENT OF THE CASE

Petitioner holds the copyrights in its Beanie Babies® plush toys and therefore, as a matter of law, has the exclusive right to create a wide range of derivative works based on those toys, such as photographs of the toys. Petitioner licenses third parties to publish copyrightable photographs of the full line of Beanie Babies in "collectors' guides" that, as a result of the license, would enjoy a competitive advantage over any guide that did not include photographs. Respondent, without any license, nonetheless produced various collectors' guides to the Beanie Babies toys that included photographs of the complete set of toys.

Petitioner sued respondent for copyright infringement. Respondent defended on the ground that its use of the photographs was "fair use." The district court held that respondent's guides infringed petitioner's copyrights. It concluded that all four of the statutory factors, which according to Congress "shall" be considered in "any" case involving a defense of fair use, favored petitioner.

The Seventh Circuit reversed. It held that the statutory factors are *irrelevant* and deemed the controlling inquiry instead to be whether respondent's use of petitioner's copyrightable material was necessary to effectively compete in the market, and in particular to compete against the collectors' guides licensed by petitioner.

1. The Copyright Act grants to copyright holders certain "exclusive rights," including the right "to reproduce the copyrighted work in copies" and the right to "prepare derivative works based on the copyrighted work." 17 U.S.C. §§ 106(1) and (2). A derivative work is one "based upon one or more preexisting works," including an "art reproduction" or "any other form in which a work may be recast, transformed, or adapted." *Id.* § 101. A copyright holder may also license its rights to third parties. *Id.* §§ 106 and 201(d).

The rights of copyright holders are limited by the "fair use" doctrine. Fair use originated as a judicially created rule (*e.g.*, *Folsom v. Marsh*, 9 F. Cas. 342 (No. 4,901) (C.C.D. Mass. 1841)), and its purpose is to "permit[] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 577 (1994) (quoting *Stewart v. Abend*, 495 U.S. 207, 236 (1990)). Congress has codified four factors that, although

nonexclusive, "shall" be considered in determining whether fair use exists in "any particular case":

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. The preamble to the fair use provision of the Copyright Act sets forth six examples that typify non-infringing fair use: criticism, comment, news reporting, teaching, scholarship, and research. *See id.*, Pet. App. 67a.

2. Petitioner Ty Inc. ("Ty" or "petitioner") is the originator of the popular Beanie Babies plush toys. Ty holds the copyright in each toy as a "sculptural work." 17 U.S.C. §§ 101, 102(a)(5). Ty also holds, as a matter of law, the exclusive "derivative" right to produce photographs of each of the toys and/or the full line of toys. *Id.* § 106(2).

As contemplated under the Copyright Act, Ty has licensed its derivative work rights in various ways, including by authorizing third parties to produce guide books illustrated with full-color photographs of the full line of Beanie Babies toys. Ty earned substantial royalties as a result of these licensing arrangements. For example, at the height of Beanie

Babies' popularity, petitioner collected quarterly license payments of nearly one-half million dollars from a single licensee. *See* Pet. C.A. Supp. App. ("S.A.") 278.[1]

Respondent Publications International, Ltd. ("PIL" or "respondent") is a publisher of collectors' guides and other books. PIL has repeatedly – and successfully – been sued for copyright infringement in connection with its guides. *See Twin Peaks Prods. v. Publications Int'l*, 996 F.2d 1366, 1375 (2d Cir. 1993); and *Publications Int'l, Ltd. v. Bally Mfg. Corp.*, 215 U.S.P.Q. 861 (N.D. Ill. 1982). PIL published two titles about petitioner's Beanie Babies in various editions. PIL's publications not only include petitioner's copyrightable photographs inside, but also include photographs prominently on the front cover, back cover, and filler pages.

One publication, *For the Love of Beanie Babies*, is a coffee-table-type book, with large print and hard shiny covers, that "seems directed at a child audience." Pet. App. 33a. The book includes photographs of every single Beanie Baby (more than 150 at the time of the book's publication), and the toys are the book's focal point.

A second publication, *Beanie Babies Collector's Guide*, is a smaller paperback volume. Each page reproduces a glossy color photograph of a Beanie Baby (the collection numbered

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1. Although not material to the question presented, the opinion below misstates the record in suggesting that Ty seeks to "suppress criticism of its products" in guidebooks. (Pet. App. 14a.) Ty's licensing agreements follow industry practice by permitting Ty to control the quality of the licensed books and to remove infringing materials, not, as the Seventh Circuit asserted, to "veto any text." (Pet. App. 11a). *See* S.A. A102.

some 200 toys at the time of publication). The photographs are accompanied by certain textual information, such as the toy's name; the "poem" printed inside the toy's hang tag; the fictitious "birthdate" assigned to each toy by Ty, also printed inside the hang tag; the toy's date of first release; its final production date; and its estimated value.

Ty's licensed collectors' guides compete in the marketplace against PIL's books. In fact, PIL actively invites consumers to contrast the publications. *See* Pet. App. 48a. PIL also uses the "full-color photographs" of the Beanie Babies as a principal selling point for its books. It claims, for example, that "other guides show only sketches of each Beanie Baby or cram several photos onto one page, but Beanie Babies Collector's guide features beautiful full-color photography and displays each Beanie Baby on its page." *Id.* 46a.

PIL's publications directly undermined Ty's efforts to exercise its derivative rights in connection with its copyrighted toys. PIL sold nearly $2 million worth of Beanie Baby books and magazines over the course of two years. Respondent, of course, could produce its books less expensively than could petitioner's licensees because respondent paid no royalties. On two separate occasions, Ty's major licensee complained that it was at a direct competitive disadvantage as a result of PIL's activities. Pet. App. 36a-37a.

3. After respondent ignored petitioner's demand that it cease and desist publication of the Beanie Baby books, petitioner filed suit asserting copyright infringement and other claims. The district court granted petitioner summary judgment on the copyright infringement claim, awarding Ty

PIL's profits of over $1.3 million, plus attorneys' fees, costs, and interest. Pet. App. 29a.

The district court found it undisputed that petitioner holds copyrights in each of the Beanie Babies toys and that "the pictures of Beanie Babies in PIL's books are photographic reproductions of Ty's copyrighted works." Pet. App. 39a. Respondent could overcome this *prima facie* showing of copyright infringement, the court explained, only by establishing that its production of the photographs was "fair use." *Id.* 40a. The court noted, however, that the fair use doctrine "does *not* grant PIL the right to use as much copyrighted material as it needs to make its product commercially popular." *Id.* 45a (emphasis added).

According to the district court, each statutory factor weighed against finding fair use. *See* Pet. App. 40a-48a. Regarding the first factor – the purpose and character of the use – PIL's books are "primarily commercial in nature." *Id.* 41a. Further, PIL's unauthorized photographs of Beanie Babies are not "transformative" – *i.e.*, they do not add something new with a further purpose or different character, and do not alter Ty's protected works with new expression, meaning or message. *Id.* 41a (citing *Campbell*, 510 U.S. at 579). The district court concluded that PIL's Beanie Baby books used Ty's protected expression in the form of "hundreds of color photographs," which goes "far beyond merely identifying their basic outline for the transformative purposes of commentary or criticism," and the court found support for this conclusion in a Second Circuit decision holding respondent liable for copyright infringement in closely analogous circumstances. *Id.* 42a (quoting *Twin Peaks*, 996 F.2d at 1375).

The second statutory factor – the nature of the copyrighted work – similarly weighed against finding fair use because "Beanie Babies are 'creative, fictional' works that spring from the imagination of Ty's creative team." Pet. App. 44a.

The third statutory factor – the amount and substantiality of the portion used in relation to the copyrighted work as a whole – weighed against finding fair use because, the district court found, "[t]he copying in PIL's books goes much further than necessary to 'further the purpose and character' of a work of commentary or criticism about Beanie Babies." Pet. App. 46a (quoting *Campbell*, 510 U.S. at 586). PIL could have used "drawings, limited numbers of photographs, or verbal descriptions to distinguish between similar toys" but instead used color photographs of each copyrighted toy and, indeed, "both the number of Beanie Babies found in PIL's books and their clear depiction in photographs are chief selling points" for the books. *Id.* 45a-46a.

Finally, the fourth statutory factor – the effect of the infringement on the plaintiff's ability to market the copyrighted material and derivative works (*Campbell*, 510 U.S. at 590) – weighed against finding fair use because "Ty demonstrated that it licenses at least six collector's guides all of which contain information similar in both content and format to that found in PIL's book," PIL's infringing books are sold in the same locations as Ty's licensed books, and PIL's "own marketing materials" invite customers to compare the books. Pet. App. 47a-48a. Again invoking Second Circuit precedent holding that certain guidebooks were not "fair use" but rather infringed the copyright of an original author, the district court concluded that PIL's books are "a 'substitute

for a derivative market' that Ty licenses others to develop." *Id.* 48a (quoting *Castle Rock Entertainment v. Carol Publ'g Group*, 150 F.3d 132, 145 (2d Cir. 1998)).

4. On respondent's appeal, the Seventh Circuit reversed in an opinion by Judge Posner. The court acknowledged that Beanie Babies are copyrighted sculptural works (Pet. App. 1a) and that photographs of the toys, in turn, are protected derivative works that may lawfully be produced only by Ty and its licensees. *Id.* 2a. By contrast, according to the court, the textual portions of a "collector's guide" – *i.e.*, a description of a collection of works, as opposed to photographs of those works – is not a protected derivative work. *Id.* 13a.[2] The Seventh Circuit noted that one of PIL's publications – *For the Love of Beanie Babies* – could probably be deemed infringing on summary judgment because it "might well be thought *essentially* just a collection of photographs of Beanie Babies" rather than a collector's guide. *Id.* 9a-10a, 18a-19a (emphasis in original).

The Seventh Circuit concluded that the other PIL book – *Beanie Babies Collector's Guide* – lies "[a]t the opposite extreme" and more closely approaches a legitimate "collector's guide," albeit one that includes a full collection of unlicensed photographs that petitioner has the exclusive right to publish. Pet. App. 10a-11a. In evaluating whether PIL is nonetheless immune from liability for copyright

2. Although not material to the question presented, the opinion below mistakenly suggests that petitioner agrees that a Beanie Babies collector's guide is not an infringing derivative work. (Pet. App. 13a.) Although that might be true of a collector's guide without illustrations, the entire point of this litigation, of course, is that a collector's guide that includes a broad array of protected photographs is infringing.

infringement, the Seventh Circuit rejected the district court's reliance on the fair use factors that, according to Congress, "shall" be considered in "any" case. The court of appeals instead construed the fair use doctrine to confer a right to *compete* in the marketplace, and with the copyright holder in particular. *Id.* 13a-14a.

According to Judge Posner's opinion for the court, the test for infringement is "whether PIL copied more than it had to in order to produce a *marketable* collector's guide." *Id.* 13a (emphasis added). Although the court of appeals was unable to identify any other court that had applied such a standard – either prior to 1978 or during the more than two decades since Congress codified the fair use doctrine – it nevertheless took the view that, if respondent "couldn't compete, the result would be to deliver into Ty's hands a monopoly of Beanie Baby collectors' guides even though Ty acknowledges that such guides are not derivative works and do not become such by being licensed to it." *Id.* 14a. "Given that Ty can license (in fact has licensed) the publication of collectors' guides," the court of appeals asked rhetorically, "how could a competitor forbidden to publish photos of the complete line compete?" *Id.* 13a.

The Seventh Circuit acknowledged that its newly-minted "marketability" test addressed only "the purpose of the [fair use] doctrine rather than its statutory definition" (Pet. App. 15a), but deemed its deviation from the statutory text to be immaterial. According to the court of appeals, the four-part statutory test is "extensive" but "not illuminating," as "[m]ore can be less, even in law." *Id.* The Seventh Circuit went on to state that a copyright holder can "get *nowhere* in defending [a] judgment [of infringment] by arguing that some or even all of [the statutory factors] lean against the defense of fair use." *Id.* 16a (emphasis added).

Specifically, the Seventh Circuit dismissed as "empty" the first and second fair use factors – the nature of the allegedly infringing use (including particularly whether it is "commercial") and the nature of the copyrighted work. Pet. App. 16a. It refused to consider the third factor – the amount of the copyrighted work that was copied – on the ground that this factor is "inapplicable to Beanie Babies" because no one would copy part of one of the toys. *Id.* Finally, the court of appeals indicated that the fourth factor – the effect of PIL's use on the market for the copyrighted work – was not relevant, although it "glances at" the distinction between substitute and complimentary copying, "the latter [of which] does not impair the potential market or value of the copyrighted work." *Id.* 16a.

5. This petition for a writ of certiorari followed.

REASONS FOR GRANTING THE PETITION

Certiorari should be granted for two reasons. First, the Seventh Circuit's holding that the determination of fair use should be made without regard to the factors established by Congress conflicts with this Court's precedents and with decisions of other courts of appeals. The decision below cannot be reconciled with a wall of precedent faithfully adhering to the statutory command that the four factors "shall" be applied in "any particular case." 17 U.S.C. § 107. To the extent the Seventh Circuit's decision is tethered to the text of the Copyright Act at all, it turns the fair use factors entirely on their head, encouraging competitors to appropriate protected works for commercial purposes without permission. Moreover, there is no basis for concluding that "collectors' guides" are unique publications that merit a special test that Congress never contemplated in the

Copyright Act. As two Second Circuit decisions in particular demonstrate, whether publications generally, and guidebooks in particular, amount to fair use should properly be determined by reference to the statutory criteria established by Congress.

Second, the question presented is vitally important. As a result of the Seventh Circuit's market-based test, a defendant's infringement will be deemed fair use, without consideration of the statutory fair use factors, so long as the defendant can show that use of the proprietary material was required to compete in the market. This is particularly true where the copyright owner has licensed others to sell products featuring the proprietary material. Here, petitioner licensed several publishers to use color photographs of the entire Beanie Baby product line in collectors' guides. These publications would have competitive advantages over guides that did not have the benefit of a license to include photographs of petitioner's toys. In such a circumstance, however, the Seventh Circuit conferred a non-statutory right upon non-licensed publishers to copy the protected work to the extent necessary to compete. The obvious consequence of that right is to *vitiate* much of the economic value of the copyright owner's exclusive right to prepare a derivative work. For example, third parties will have far less incentive to obtain a license for the right to produce guidebooks with photographs of protected works, for the Seventh Circuit indicated that such copying is protected as "fair use" so long as the photographs are required to make the books marketable. That holding applies equally in innumerable other circumstances in which copyright holders have long been permitted to exploit the value of their protected works.

I. The Decision Below Conflicts With This Court's Precedents And With Decisions Of Other Circuits, Which Have Faithfully Applied The Statutory Fair Use Criteria.

1. Although the four factors for determining fair use set forth in the Copyright Act are not exhaustive, the statute unambiguously provides that each "shall" be applied in "any particular case." 17 U.S.C. § 107. This Court has accordingly recognized that Congress "listed four non-exclusive factors that *a court must consider* in determining whether an unauthorized use is not infringing." *Stewart*, 495 U.S. at 211 (emphasis added). The fair use analysis turns on an appropriate balancing of the factors: "All are to be explored, and the results weighed together, in light of the purposes of copyright." *Campbell*, 510 U.S. at 578. Thus, in *each* fair use case it has considered, this Court has applied and balanced all of the statutory factors. *See id.* at 571-572, 578-591 (challenge to parody of song "Oh Pretty Woman"); *Stewart*, 495 U.S. at 212-213, 237-238 (challenge to unauthorized broadcast of "Rear Window"); *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 549 (1985) (challenge to unauthorized use of excerpts of President Ford's memoirs); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448-50 (1984) (challenge to home video recording).

Other circuits have long adhered to the plain language of the statute and this Court's decisions interpreting it. Just a few years after Congress codified the fair use doctrine, the Eleventh Circuit reversed a district court decision that failed to apply each of the statutory criteria. "The statute uses mandatory language to the effect that in a fair use determination, the 'factors to be considered *shall* include'

(emphasis added) the four listed." *Pacific & Southern Co. v. Duncan*, 744 F.2d 1490, 1495 & n.7 (11th Cir. 1984). "To hold otherwise," the Sixth Circuit has recognized, "would be to subvert the intent manifested in the words of the statute and confirmed in the pertinent legislative history." *Princeton Univ. Press v. Michigan Document Servs.*, 99 F.3d 1381, 1385 n.1 (6th Cir. 1996). *See also e.g.*, *Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F.2d 829, 844 (11th Cir. 1990) ("The Copyright Act mandates four nonexclusive factors which courts shall consider case by case in determining fair use."); *Nunez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 21 (1st Cir. 2000) ("The ultimate determination of whether a use is fair requires a case- by-case analysis in which the four factors are to be 'weighed together in light of the purposes of copyright.'"); *Educational Testing Services v. Katzman*, 793 F.2d 533, 543 (3d Cir. 1986) (The Copyright Act "specifies four factors for the court to consider in determining whether a use is fair."); *Sundeman v. Seajay Soc'y*, 142 F.3d 194, 202 (4th Cir. 1998) ("These four statutory factors may not be 'treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.'"); and *United Tel. Co. v. Johnson Pub. Co.*, 855 F.2d 604, 609 (8th Cir. 1988) ("The statute lists several factors that are to be considered '[i]n determining whether the use made of a work in any particular case is a fair use. . . .'").

Emblematic of this unwavering appellate authority is a line of Ninth Circuit precedents consistently stating the rule in categorical terms. *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 938 (9th Cir. 2002) ("The Copyright Act gives some shape to the inquiry, listing four mandatory but nonexclusive factors."); *Sony Computer Entertainment Am., Inc. v. Bleem, LLC*, 214 F.3d 1022, 1026 (9th Cir. 2000)

("all factors must be considered"); *Micro Star v. Formgen Inc.*, 154 F.3d 1107, 1112 (9th Cir. 1998) ("Section 107 instructs courts . . . to consider four factors."); *Dr. Seuss Enters., L.P. v. Penguin Books USA*, 109 F.3d 1394, 1399 (9th Cir. 1997) ("In § 107 of the 1976 Copyright Act, Congress laid down four factors to be considered and weighed by the courts in determining if a fair use defense exists in a given case"); *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1151 (9th Cir. 1986) ("[S]ection 107 specifies four factors this court must consider in determining whether the use in a particular case is a fair use."); *Brewer v. Hustler Magazine, Inc.*, 749 F.2d 527, 529 (9th Cir. 1984) (labeling each of the four factors as one that "we must consider"). *See also infra* at pp. 21-23 (discussing Second Circuit precedent).

Commentators have similarly recognized that each of the statutory factors must be applied and weighed. *E.g.*, NIMMER ON COPYRIGHT § 13.05[A] (2002) ("[a]ll four of these factors must be considered"); William W. Fisher, III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1661, 1704 (1988) ("courts are required to consider" the four factors); Shubha Ghosh, *The Merits of Ownership; or, How I Learned to Stop Worrying and Love Intellectual Property*, 15 HARV. J. LAW & TECH. 453, 492 (2002) ("The fair use analysis requires the court to balance four factors.").

The decision below cannot be reconciled with any of this authority. According to the Seventh Circuit, a copyright holder can "get *nowhere* in defending [a] judgment [of infringment] by arguing that some or even all of [the statutory factors] lean against the defense of fair use." Pet. App. 16a (emphasis added).

The Seventh Circuit specifically held that the first factor – the nature of the allegedly infringing use – is "empty." Pet. App. 16a. The appellate court thus refused to give any credence to the fact that this factor weighs against a finding of fair use, even though it has been described as the "soul" of fair use. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1116 (1990). The district court concluded (Pet. App. 42a, 48a), and the court of appeals did not dispute (*id.* 16a), that PIL is engaged in commercial publication under the first factor (in contrast to newsgathering or non-profit activities). Nevertheless, the Seventh Circuit simply deemed the first factor irrelevant as a matter of law by *ipse dixit*.

Further, this Court has explained that the first factor looks to "whether the new work merely 'supersede[s] the objects' of the original creation . . . or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is transformative." *Campbell*, 510 U.S. at 579 (quoting Leval, *supra*, 1111). Here, respondent included in its books "hundreds of color photographs" protected by petitioner's derivative copyrights; used the photographs on the covers and filler pages and as the focal point of the pages; and used the photographs as key selling points for the books. That activity goes "far beyond merely identifying their basic outline for the transformative purposes of commentary or criticism." Pet. App. 42a (quoting *Twin Peaks*, 996 F.2d at 1375).

The Seventh Circuit also held that the second fair use factor – the nature of the copying – is "empty" (Pet. App. 15a), notwithstanding this Court's conclusion that this factor

is "*highly relevant* to whether a given use is fair" (*Harper & Row*, 471 U.S. at 552 (emphasis added)). The second factor "calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell*, 510 U.S. at 586. Here, it is undisputed that "Beanie Babies are 'creative, fictional' works that spring from the imagination of Ty's creative team" and that are accordingly entitled to heightened copyright protection. Pet. App. 44a. As with the first fair use factor, the Seventh Circuit likely deemed this factor "empty" because its new economic-based standard could not otherwise be reconciled with the traditional fair use factors.

The Seventh Circuit further held the third statutory factor "inapplicable" because no one would ever seek to copy "part" of a Beanie Baby toy. Pet. App. 16a. That there is no market for "part" of a protected work hardly excuses the unauthorized copying of the entire thing, and that there is no interest in a photograph of part of a Beanie Baby is no excuse, as a matter of law or logic, to reproduce unauthorized photographs of the entire line of toys.[3]

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3. To be sure, as the Seventh Circuit noted, "a complete copy is not *per se* an unfair use." Pet. App. 13a. Whether a complete copy can be saved from infringement liability, however, turns on an application of the four statutory factors. *Compare Sony*, 464 U.S. at 448, 456 (finding complete copies made by video tape recorders for home use to be fair use because copying involved "noncommercial, nonprofit activity" and there was no evidence that copying "would cause any likelihood of nominal harm to the protected market for, or the value of, their copyrighted works") with *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110, 1118 (9th Cir. 2000), *cert. denied*, 532 U.S. 958 (2001) (holding that verbatim copies of entire work were infringing because copies were

(Cont'd)

Furthermore, the third factor looks to whether the copying includes more of the protected work than is necessary to further the purpose of the claimed fair use – here, the publication of a collectors' guide. *Campbell*, 510 U.S. at 586-87. The district court correctly concluded that PIL used far more of the protected photographs than was necessary to publish its particular collectors' guide. Pet. App. 46a. The Seventh Circuit reversed only by radically redefining the inquiry as turning on whether the copying went further than necessary to produce a "*marketable*" product. *Id.* 13a. Neither the statute, nor this Court's precedents, nor decisions of other circuits justify importing such a broad, non-textual expansion of the fair use doctrine.

The Seventh Circuit similarly refused to accord any weight to the fourth factor – the effect of the use on the market for the protected work – which even the court of appeals admitted favors uses that do "not impair the potential market or value of the copyrighted work." Pet. App. 16a. This factor weighs against fair use if "unrestricted and widespread conduct of the sort engaged in by the defendant" would result in a "substantially adverse impact" on the potential market for the original as well as "the market for derivative works." *Campbell*, 510 U.S. at 590 (quoting *Harper & Row*, 471 U.S. at 568). Accordingly, other courts of appeals have recognized that an adverse effect on the market for an original or derivative work weighs against fair use.[4] This is particularly

(Cont'd)
"a central element of [defendant's] members' religious observance" and a reasonable person would expect defendant to pay plaintiff for right to copy and distribute infringing material).

4. *See, e.g.*, *Castle Rock*, 150 F.3d at 145 (defendant's *Seinfeld* book substituted for derivative market that program owner would (Cont'd)

true where, as here, the plaintiff has licensed others to create derivative works based on plaintiff's copyrighted property.[5] Here, it is undisputed that unrestricted and widespread conduct of the sort engaged in by PIL would substantially injure petitioner's ability to license the right to produce photographs as derivative works, but the Seventh Circuit deemed that fact immaterial.

Not only does the decision below conflict with this Court's precedents and with decisions of other circuits by

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(Cont'd)

develop or license); *Rogers v. Koons*, 960 F.2d 301, 312 (2d Cir. 1992) (defendant's creation of sculpture based on copyrighted photograph harmed market for derivative works); *Micro Star*, 154 F.3d at 1113 (defendant's computer game with levels playable on plaintiff's computer game harmed plaintiff's ability to market new versions of its game).

5. *See Twin Peaks*, 996 F.2d at 1377 (fourth fair use factor weighed against defendant where plaintiff had already licensed at least two "Twin Peaks" books); *Princeton Univ. Press*, 99 F.3d at 1388 (fair use was negated under fourth factor where defendant made unauthorized copies of plaintiffs' books in college coursepacks, and where the defendant competed with copy shops that paid permission fees to plaintiff); *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 931 (2d Cir. 1994) (defendant's unauthorized copying of plaintiff's articles for its researchers was not fair use, where, under the fourth factor, the plaintiff demonstrated lost licensing revenues because of defendant's conduct; and *Los Angeles News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1123 (9th Cir. 1997) (fourth factor weighed against fair use where defendant used plaintiff's news footage of LA riots without permission, and where other news stations had paid for a license to use the footage.)

refusing to apply the statutory fair use factors, but the consequence of the Seventh Circuit's "marketability" analysis is to turn the fair use inquiry mandated by Congress entirely on its head. As reflected in not only the four factors, but also the types of uses that Congress sought to protect from infringement liability – criticism, comment, news reporting, teaching, scholarship, and research (*see* 17 U.S.C. § 107, Pet. App. 67a-68a) – the fair use doctrine always has sought to protect principally educational and non-profit uses of protected works. By contrast, "a use that supplants any part of the normal market for a copyrighted work would ordinarily be considered an infringement." S. Rep. No. 473, 94th Cong., 1st Sess. 65 (1965). *Accord* Leval, *supra*, at 1124 ("The utilitarian concept underlying the copyright promises authors the opportunity to realize rewards in order to encourage them to create. A secondary use that interferes excessively with an author's incentives subverts the aims of copyright. Hence, the importance of the market factor.").

The Seventh Circuit nonetheless has adopted a legal standard that *favors* the commercial appropriation of protected material. In particular, when a claimed fair use competes in the market with a copyrighted work (or its derivative), the fair use doctrine in the Seventh Circuit now permits the accused work to use as much copyrighted material as is necessary to create a "marketable" product. Congress could not have intended such a perverse result. Indeed, at least one legal commentator has summarized and criticized the Seventh Circuit's ruling as follows:

> [E]ven if all the fair use factors militated against the fair use defense, fair use could still be found if defendant did not copy more of the copyrighted work than it had to in order to produce a

> marketable work. We do not find this argument or reasoning persuasive. Moreover, *Ty's* economic analysis dispenses with statutory and well-established fair use case law yet provides no clear guidance or criteria in their place.

THE COPYRIGHT LAW JOURNAL, Vol. XVI, No. 5, p. 55 (September-October 2002).

2. Additional conflicts created by the decision below arise from the fact that the Seventh Circuit rejected the statutory balancing test in favor of a categorical rule that turns solely on the marketability of the defendant's work. This Court, by contrast, has held that a "sensitive balancing of interests" is required because Congress "eschewed a rigid, bright line approach to fair use." *Campbell*, 510 U.S. at 584-85 (quoting *Sony*, 464 U.S. at 455 n.40, 449 n.31). For example, in *Campbell*, which involved a parody of a song, this Court explained that "parody, like any other use, has to work its way through the relevant factors, and be judged case by case, in light of the ends of the copyright law." *Id.* at 581. Under an appropriate balancing inquiry, a weak showing in connection with one factor may be offset by "the relative strength of the showing on the other factors." *Id.* at 591 n.20. The appellate court's opinion, however, leaves no room for this balancing of interests that is indispensable in any fair use analysis.

3. The clear conflicts created by the decision below cannot be minimized on the supposed ground that the decision below involves "collectors' guides." The Seventh Circuit's fair use analysis is not limited to that particular context, but rather applies whenever a claimed fair use competes in the marketplace with similar works that contain

copyrighted material. (*See* pp. 24-26 *infra*.) In any event, the Second Circuit has specifically ruled that the four statutory factors control the determination of whether guidebooks that include substantial copyrightable material come within the fair use doctrine.[6]

Twin Peaks Productions, Inc. v. Publications International, Ltd., 996 F.2d 1366 (2d Cir. 1993), involved respondent's publication of a guidebook to a popular television show. On any view, that book included less infringing material than respondent's Beanie Babies books: it described the plot of eight episodes of the show, accompanied by some commentary, but it did not reproduce the scripts. The Second Circuit specifically addressed the principal argument of the Seventh Circuit – it acknowledged that "[t]he author of 'Twin Peaks' cannot preserve for itself

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6. These rulings reflect the Second Circuit's tradition of rigorous adherence to the four statutory fair use factors. *E.g.*, *Leibovitz v. Paramount Pictures Corp.*, 137 F.3d 109, 112 (2d Cir. 1998) ("The [Supreme] Court made clear that all four of the statutory factors 'are to be explored, and the results weighed together.'") (quoting *Campbell*, 510 U.S. at 578); *American Geophysical Union*, 60 F.3d at 918 ("Section 107 of the Copyright Act identifies four non-exclusive factors that a court is to consider when making its fair use assessment.").

These Second Circuit decisions are also consistent with the line of authority holding that fair use does not authorize the publication of protected material in books regarding items in popular culture. *E.g.*, *Paramount Pictures Corp. v. Carol Publ'g Group*, 11 F. Supp. 2d 329, 336 (S.D.N.Y. 1998) (book about "Star Trek" television series), *aff'd w/out opinion*, 181 F.3d 83 (2d Cir. 1999); *Horn Abbot, Ltd. v. Sarsaparilla, Ltd.*, 601 F. Supp. 360 (N.D. Ill. 1984) (book about "Trivial Pursuit" board game); *Publications Int'l, Ltd.*, 215 U.S.P.Q. at 861 (book about "Pac Man" video game).

the entire field of publishable works that wish to cash in on the 'Twin Peaks' phenomenon." *Id.* at 1377. But the Second Circuit held that the fair use analysis was still controlled by the four statutory factors, and it expressly refused to consider any criteria other than the statutory factors when "all of the statutory factors favor" the plaintiff. *Id.* at 1377-78.

Not only did the Second Circuit in *Twin Peaks* apply the statutory factors in indistinguishable circumstances, but its analysis makes plain that petitioner here would prevail in that court. In conflict with the Seventh Circuit's holding that a party may include whatever protected materials are necessary to compete in the market, the Second Circuit held under the first factor that when a publication "elaborates in detail far beyond what is required to serve any legitimate purpose" of commentary or criticism, "the first factor cannot be weighted in favor of the fair use defense." 996 F.2d at 1376. The Twin Peaks show, like Ty's Beanie Babies, also was a "creative and fictional work" entitled to heightened protection under the second factor. *Id.* Further, as in this case, "[w]hat PIL lifted was plainly substantial in relation to the copyrighted works as a whole" under the third factor. *Id.* at 1377. Finally, *Twin Peaks* noted that a plaintiff "may rightfully claim a favorable weighting of the fourth fair use factor with respect to a book that reports the plot in such extraordinary detail as to risk impairment of the market for the copyrighted works themselves or derivative works that the author is entitled to license." *Id.* Such impairment to the market for Ty's derivative works is likewise present here.

Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., 150 F.3d 132, 142 (2d Cir. 1998), involved the publication of a trivia quiz book about the television show *Seinfeld*. Once again, the Second Circuit recognized the

principal concern underlying the Seventh Circuit's decision in this case: "by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work, a copyright owner plainly cannot prevent others from entering those fair use markets." *Id.* at 145 n.11. But the court held that such a case must still be evaluated under the four statutory factors. *Accord* Jane C. Ginsburg, *Copyright and Intermediate Users' Rights*, 23 Colum. – VLA J.L. & Arts 67, 70-71 (Winter 1999) (addressing unlicensed works that "spin off" and capitalize on popularity of prior works and approving of Second Circuit's analysis in *Castle Rock*).

The Second Circuit in *Castle Rock* held that all four factors weighed against a finding of fair use as a matter of law. Regarding the first factor, the court ruled that "[a]ny transformative purpose possessed by [the book] is slight to non-existent." 150 F.3d at 142. As to the second factor, "the fictional nature of the copyrighted work remains significant." *Id.* Further, the purpose of the book "was entertainment, not commentary" and it thus "did not serve a critical or otherwise transformative purpose." *Id.* at 144. Finally, and critically, the book "substitutes for a derivative market that a television program copyright owner such as Castle Rock 'would in general develop or license others to develop.'" *Id.* at 145. The same factors defeat any claim of fair use in this case.

Because the Seventh Circuit's decision conflicts with this Court's precedents as well as decisions of other circuits, certiorari should be granted.

II. The Question Presented Is Important To The Operation Of The Copyright Laws.

Certiorari also is warranted because the Seventh Circuit's holding that claims of fair use in these circumstances are governed by a "marketability" test rather than the four statutory factors adopted by Congress presents a very important legal issue. Works containing non-derivative aspects such as collectors' guides regularly compete in the marketplace against derivative works such as petitioner's licensed Beanie Baby guides. For example, third parties often produce books commenting on, criticizing, or merely describing movies, television shows, games, and (as in this case) lines of products such as toys. *See* cases cited in note 6, *supra*. Under the Seventh Circuit's market-based approach, a copyright defendant easily may establish fair use, without consideration of the statutory factors, so long as the defendant can show that it needed to use the copyrighted material in order to compete in the market. This dramatically undermines the ability of copyright holders to license their limited statutory monopoly, and minimizes the parallel obligation of third parties to refrain from appropriating protected works without permission of the authors. Such a wholesale restructuring of an established market for copyrighted works raises a serious issue meriting this Court's attention. Under the Seventh Circuit approach, copyright defendants may *always* assert that they cannot compete with licensed products, which necessarily have the benefit of exclusive access to the copyrightable materials.

Accordingly, the decision below has two predictable outcomes. First, it will discourage third parties from entering into licensing agreements and existing licensees from extending those agreements. Second, it has the perverse

consequence of conferring upon putative infringers a competitive advantage over royalty-paying licensees, which necessarily have higher costs.

The conflict among the courts of appeals, including particularly the stark conflict between the Second Circuit (which governs the publishing houses of New York) and the Seventh Circuit (which governs the publishing industry in Chicago) (*see supra* at pp. 21-23), specifically gives rise to an untenable degree of uncertainty in copyright law. The Second Circuit unquestionably would reject the right to appropriate so much of a protected work as is necessary to produce a "marketable" product, which is the standard embraced by the Seventh Circuit in this case. That disagreement shakes the foundations of derivative work licensing, which requires certainty to operate, and creates an open invitation for forum shopping.

Finally, certiorari is warranted because it is Congress's responsibility, not the role of the courts, to implement such a sea change in fair use law. The Constitution grants Congress the "Power . . . to Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. It is therefore "Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or inventors in order to give the public appropriate access to their work product," giving rise to a corresponding "judicial reluctance" to alter the statutory balance "without explicit legislative guidance." *Sony*, 464 U.S. at 429-30. Congress has fulfilled that responsibility by articulating specific factors that must be considered in "any" fair use analysis. "[T]he specific wording of section 107 as it now

stands is the result of a process of accretion, resulting from the long controversy over the related problems of fair use and the reproduction . . . of copyrighted material for education and scholarly purposes." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 66 (1976).

Because the decision below presents an important and recurring question under the copyright laws, and because it usurps Congress's role in determining the scope of fair use protection, certiorari should be granted for these reasons as well.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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November 8, 2002

APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT DECIDED MAY 30, 2002

IN THE
UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

No. 01-3304

TY, INC.,

Plaintiff-Appellee,

v.

PUBLICATIONS INTERNATIONAL LTD.,

Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 99 C 5565 — **James B. Zagel**, *Judge*

Argued April 5, 2002 — Decided May 30, 2002

Before Flaum, *Chief Judge*, and Posner and Rovner, *Circuit Judges.*

POSNER, *Circuit Judge.* Ty is the manufacturer of Beanie Babies. These well-known beanbag stuffed animals are copyrightable as "sculptural works," 17 U.S.C. §§ 101, 102(a)(5); *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167, 1169 (7th Cir. 1997), and are copyrighted by Ty, which brought this suit for copyright and trademark infringement against Publications International, Ltd. (PIL), publisher of a series of books, with titles such as *For the Love of Beanie*

Babies and *Beanie Babies Collector's Guide*, that contain photographs of Beanie Babies. PIL concedes that photographs of Beanie Babies are derivative works, which, being copies of copyrighted works, can be produced only under license from Ty — and PIL has no license. PIL's defense to the charge of copyright infringement is the doctrine of fair use. On Ty's motion for summary judgment, the district court rejected the defense, granted the motion, and issued a permanent injunction against PIL's selling any of its Beanie Babies books. It also awarded Ty PIL's profits from the sale of those books, $1.36 million, plus more than $200,000 in prejudgment interest.

The trademark claim remains in the district court, which denied summary judgment on that claim, but the court entered final judgment on the copyright claim under Fed.R.Civ.P. 54(b) to permit an immediate appeal. However, Rule 54(b) authorizes the district court to enter a final judgment on a separate claim only if that claim is separate from the claim or claims remaining for decision in the district court — separate not in the sense of arising under a different statute or legal doctrine, such as the trademark statute versus the copyright statute, but in the sense of involving different facts. *Continental Casualty Co. v. Anderson Excavating & Wrecking Co.*, 189 F.3d 512, 516 (7th Cir. 1999); *Lawyers Title Ins. Corp. v. Dearborn Title Corp.*, 118 F.3d 1157, 1162-63 (7th Cir. 1997); *NAACP v. American Family Mutual Ins. Co.*, 978 F.2d 287, 292 (7th Cir. 1992); see *Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1, 8 (1980); *Advanced Magnetics, Inc. v. Bayfront Partners, Inc.*, 106 F.3d 11, 21-22 (2d Cir. 1997); *Maldonado-Denis v. Castillo-Rodriguez*, 23 F.3d 576, 580 (1st Cir. 1994). Otherwise the appellate

court would have to go over the same ground when the judgment terminating the entire case was appealed.

At first glance the factual overlap might seem complete in this case, since the identical images, PIL's photographs of Beanie Babies, are claimed to infringe both Ty's copyrights and its trademarks. But the only facts before us on this appeal, the facts bearing on PIL's defense of fair use, are unlikely to be at issue in the trademark phase of the case. Moreover, although the district court issued a permanent rather than a preliminary injunction, that injunction is appealable immediately, irrespective of Rule 54(b), by virtue of the provision of the Judicial Code that permits "interlocutory orders . . . granting . . . injunctions" to be appealed. 28 U.S.C. § 1292(a)(1). Although this provision is ordinarily used to permit the immediate appeal of preliminary (temporary) injunctions, it is not so limited as a matter either of statutory language or statutory purpose. *United States v. Hansen*, 795 F.2d 35, 38 (7th Cir. 1986); *Prohosky v. Prudential Ins. Co.*, 767 F.2d 387, 391 n.4 (7th Cir. 1985); *Parks v. Pavkovic*, 753 F.2d 1397, 1402-03 (7th Cir. 1985); *Fielder v. Credit Acceptance Corp.*, 188 F.3d 1031, 1033 (8th Cir. 1999); *Warren Publishing, Inc. v. Microdos Data Corp.*, 115 F.3d 1509, 1511 and n.1 (11th Cir. 1997) (en banc); 16 Charles Alan Wright *et al.*, *Federal Practice and Procedure*, § 3924, pp. 149-53 (2d ed. 1996). An order is interlocutory when it does not wind up the litigation in the court issuing the order, and that is the character of the permanent injunction that the district court issued in this case. And while one reason for permitting the immediate appeal of a preliminary injunction is that such an injunction is entered after a summary proceeding, increasing the risk of error, that turns out to be

the character of the permanent injunction in this case as well: it was issued in response to a motion for summary judgment, and not after a trial.

The main reason for allowing the interlocutory appeal of an injunction, moreover, is that an injunction is likely to inflict irreparable harm on the defendant, that is, harm that a reversal will not cure. The harm will be prolonged and thus increased if the defendant must await the completion of further proceedings in the district court before challenging the injunction in the court of appeals. This is true whether the injunction is permanent or temporary — in fact it is truer for the former. The purpose of an injunction bond is to compensate the defendant, in the event he prevails on the merits, for the harm that an injunction entered before the final decision caused him, and so it is required only for a temporary restraining order or a preliminary injunction, Fed. R. Civ. P. 65(c), not for a permanent injunction.

So we have jurisdiction by virtue both of Rule 54(b) and section 1292(a)(1), and thus can proceed to the merits, where the only question is whether PIL is entitled to a trial on its defense of fair use. "Fair use is a mixed question of law and fact," *Harper & Row Publishers, Inc. v. Nation Enterprises,* 471 U.S. 539, 560 (1985), which means that it "may be resolved on summary judgment if a reasonable trier of fact could reach only one conclusion" — but not otherwise. *Narell v. Freeman,* 872 F.2d 907, 910 (9th Cir. 1989); see also *Association of American Medical Colleges v. Cuomo,* 928 F.2d 519, 524 (2d Cir. 1991).

Appendix A

The defense of fair use, originally judge-made, now codified, plays an essential role in copyright law. Without it, any copying of copyrighted material would be a copyright infringement. A book reviewer could not quote from the book he was reviewing without a license from the publisher. Quite apart from the impairment of freedom of expression that would result from giving a copyright holder control over public criticism of his work, to deem such quotation an infringement would greatly reduce the credibility of book reviews, to the detriment of copyright owners as a group, though not to the owners of copyright on the worst books. Book reviews would no longer serve the reading public as a useful guide to which books to buy. Book reviews that quote from ("copy") the books being reviewed increase the demand for copyrighted works; to deem such copying infringement would therefore be perverse, and so the fair-use doctrine permits such copying. *Desnick v. American Broadcasting Companies, Inc.*, 44 F.3d 1345, 1351 (7th Cir. 1995) (dictum); William M. Landes, "Copyright, Borrowed Images, and Appropriation Art: An Economic Approach," 9 *Geo. Mason L. Rev.* 1, 10 (2000); Lawrence Lessig, "The Law of the Horse: What Cyberlaw Might Teach," 113 *Harv. L. Rev.* 501, 528 (1999). On the other hand, were a book reviewer to quote the entire book in his review, or so much of the book as to make the review a substitute for the book itself, he would be cutting into the publisher's market, and the defense of fair use would fail. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 215 (2d Cir. 1983) (dissenting opinion), rev'd, 471 U.S. 539 (1985); see *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562 (1985); *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d

1110, 1118 (9th Cir. 2000); *Consumers Union of United States, Inc. v. General Signal Corp.*, 724 F.2d 1044, 1051 (2d Cir. 1983).

Generalizing from this example in economic terminology that has become orthodox in fair-use case law, we may say that copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work, see 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.05[B][1], p. 13-193 (2002), is not fair use. *On Davis v. The Gap, Inc.*, 246 F.3d 152, 175-76 (2d Cir. 2001); *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1277 (11th Cir. 2001) (concurring opinion); Wendy J. Gordon, "Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors," 82 *Colum. L. Rev.* 1600, 1643 n.237 (1982); see *Consumers Union of United States, Inc. v. General Signal Corp., supra*, 724 F.2d at 1051. If the price of nails fell, the demand for hammers would rise but the demand for pegs would fall. The hammer manufacturer *wants* there to be an abundant supply of cheap nails, and likewise publishers want their books reviewed and wouldn't want reviews inhibited and degraded by a rule requiring the reviewer to obtain a copyright license from the publisher if he wanted to quote from the book. So, in the absence of a fair-use doctrine, most publishers would disclaim control over the contents of reviews. The doctrine makes such disclaimers unnecessary. It thus economizes on transaction costs.

Appendix A

The distinction between complementary and substitutional copying (sometimes — though as it seems to us, confusingly — said to be between "transformative" and "superseding" copies, see, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)) is illustrated not only by the difference between quotations from a book in a book review and the book itself, Marion B. Stewart, "Calculating Economic Damages in Intellectual Property Disputes: The Role of Market Definition," *77 J. Patent & Trademark Office Society* 321, 332 (1995), but also by the difference between parody (fair use) and burlesque (often not fair use). A parody, which is a form of criticism (good-natured or otherwise), is not intended as a substitute for the work parodied. But it must quote enough of that work to make the parody recognizable as such, and that amount of quotation is deemed fair use. *Campbell v. Acuff-Rose Music, Inc., supra*, 510 U.S. at 579, 580-81 and n.14, 588; *Suntrust Bank v. Houghton Mifflin Co., supra*, 268 F.3d at 1271; *Leibovitz v. Paramount Pictures Corp.*, 137 F.3d 109, 114 (2d Cir. 1998); *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1400 (9th Cir. 1997); 4 Nimmer & Nimmer, *supra*, § 13.05[C], pp. 13-203 to 13-218. A burlesque, however, is often just a humorous substitute for the original and so cuts into the demand for it: one might choose to see *Abbott and Costello Meet Frankenstein* or *Young Frankenstein* rather than *Frankenstein*, or *Love at First Bite* rather than *Dracula*, or even *Clueless* rather than *Emma*. Burlesques of that character, catering to the humor-loving segment of the original's market, are not fair use. *Benny v. Loew's Inc.*, 239 F.2d 532, 536-37 (9th Cir. 1956), aff'd. by an equally divided Court under the name *Columbia Broadcasting System, Inc. v. Loew's, Inc.*, 356 U.S. 43 (1958) (per curiam);

see 4 Nimmer & Nimmer, *supra*, § 13.05[B][1], pp. 13-194 to 13-195, § 13.05[C]; cf. *Campbell v. Acuff-Rose Music, Inc.*, *supra*, 510 U.S. at 580-81 and n. 14, 591. The distinction is implicit in the proposition, affirmed in all the cases we have cited, that the parodist must not take more from the original than is necessary to conjure it up and thus make clear to the audience that his work is indeed a parody. If he takes much more, he may begin to attract the audience *away* from the work parodied, not by convincing them that the work is no good (for that is not a substitution effect) but by providing a substitute for it.

Book reviews and parodies are merely examples of types of work that quote or otherwise copy from copyrighted works yet constitute fair use because they are complements of (though sometimes negative complements, as in the case of a devastating book review) rather than substitutes for the copyrighted original. The commonest type is simply a quotation from a copyrighted work in a book or article on the same or a related subject. The complementary effect may be quite weak, but the quotation is unlikely to reduce the demand for the copyrighted work; nor could the copyright owner command a license fee commensurate with the costs of transacting with the copier. Such copying is therefore fair use.

Were control of derivative works not part of a copyright owner's bundle of rights, it would be clear that PIL's books fell on the complement side of the divide and so were sheltered by the fair-use defense. A photograph of a Beanie Baby is not a substitute for a Beanie Baby. No one who wants a Beanie Baby, whether a young child who wants to play with it or an adult (or older child) who wants to collect Beanie

Babies, would be tempted to substitute a photograph. But remember that photographs of Beanie Babies are conceded to be derivative works, for which there may be a separate demand that Ty may one day seek to exploit, and so someone who without a license from Ty sold photographs of Beanie Babies would be an infringer of Ty's sculpture copyrights. The complication here is that the photographs are embedded in text, in much the same way that quotations from a book are embedded in a review of the book. Ty regards the text that surrounds the photographs in PIL's Beanie Baby books as incidental; implicitly it compares the case to one in which a book reviewer quotes the whole book in his review. Or to a case in which a purveyor of pornographic pictures pastes a copy of the Declaration of Independence on the back of each picture and argues that judged as a whole his product has redeeming social value. *United States v. A Motion Picture Film Entitled "I Am Curious-Yellow,"* 404 F.2d 196, 201 (2d Cir. 1968) (Friendly, J., concurring); see *Valentine v. Chrestensen,* 316 U.S. 52 (1942). PIL argues, to the contrary, that the photographs are indispensable to the creation of a collectors' guide to Beanie Babies; and, as we'll see shortly, collectors' guides are not derivative works.

The proper characterization of PIL's Beanie Baby books is the kind of fact-laden issue appropriate for summary judgment only in extreme cases, which this case is not — in part because of differences among the books that the district court found infringed Ty's copyright. At one end of the spectrum is *For the Love of Beanie Babies.* This large-print book with hard shiny covers seems directed at a child audience. All the different Beanie Babies, more than 150 of

them, are pictured. Each picture is accompanied by a brief commentary. Some of the commentary seems aimed exclusively at a child (or infantile adult) audience, such as the commentary on Snip the Siamese Cat: "That darn cat has nerve! Just like the real thing, Ty's Siamese has plenty of attitude. The champagne-colored cat with blue-ringed black eyes and chocolate-covered points is a beautiful specimen of the Far Eastern breed. And she knows it! Stretched out on all fours, this finicky feline is the only purebred in Ty's cathouse. This pretty kitty is definitely the cat's meow." The commentary seems distinctly secondary to the photograph. An even clearer case is a two-page spread in *For the Love of Beanie Babies* entitled "Kitty Corner," which we reproduce (without Ty's permission! — a good example of the fair-use doctrine in action) at the end of this opinion. The text is childish and pretty clearly secondary to the more than full-page photograph of feline Beanie Babies. Some of the commentary on photographs in *For the Love of Beanie Babies* does contain information relevant to collectors, such as "mint-condition Allys with older tags are very difficult to find. Retired." ("Retired" means no longer being manufactured.) But *For the Love of Beanie Babies* might well be thought *essentially* just a collection of photographs of Beanie Babies, and photographs of Beanie Babies are derivative works from the copyrighted Beanie Babies themselves.

At the opposite extreme is PIL's *Beanie Babies Collector's Guide.* This is a small paperback book with small print, clearly oriented toward adult purchasers — indeed, as the title indicates, toward collectors. Each page contains, besides a photograph of a Beanie Baby, the release date,

the retired date, the estimated value of the Beanie Baby, and other information relevant to a collector, such as that "Spooky is the only Beanie ever to have carried his designer's name," or that "Prance should be a member of the Beanie line for some time, so don't panic and pay high secondary-market prices for her just because she's fairly new."

Some of the text is quite critical, for example accusing Ty of frequent trademark infringements. Ty doesn't like criticism, and so the copyright licenses that it grants to those publishers whom it is willing to allow to publish Beanie Baby collectors' guides reserve to it the right to veto any text in the publishers' guides. It also forbids its licensees to reveal that they are licensees of Ty. Its standard licensing agreement requires the licensee to print on the title page and back cover of its publication the following misleading statement: "This publication is not sponsored or endorsed by, or otherwise affiliated with Ty Inc. All Copyrights and Trademarks of Ty Inc. are used by permission. All rights reserved." Notice the analogy to a publisher's attempting to use licensing to prevent critical reviews of its books — an attempt that the doctrine of fair use blocks. See *Suntrust Bank v. Houghton Mifflin Co., supra*, 268 F.3d at 1277 (concurring opinion). We need not consider whether such a misleading statement might constitute copyright misuse, endangering Ty's copyrights. See, e.g., *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026-27 (9th Cir. 2001); *Practice Management Information Corp. v. American Medical Association*, 121 F.3d 516, 520 (1997), amended, 133 F.3d 1140 (9th Cir. 1998); *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990).

But we do need to explain the oddity of there being collectors' guides for a line of children's toys; otherwise it might seem clear that the *Beanie Babies Collector's Guide* was a device for circumventing Ty's lawful monopoly of derivative works. As a marketing gimmick, Ty deliberately creates a shortage in each Beanie Baby by selling it at a very low price and not producing enough copies to clear the market at that price. As a result, a secondary market is created, just like the secondary market in works of art. The secondary market gives widespread publicity to Beanie Babies, and the shortage that creates the secondary market stampedes children into nagging their parents to buy them the latest Beanie Babies, lest they be humiliated by not possessing the Beanie Babies that their peers possess. *Ty, Inc. v. GMA Accessories, Inc., supra*, 132 F.3d at 1171, 1173. The appeal is to the competitive conformity of children — but also to the mentality of collectors.

When *Beanie Babies Collector's Guide* was published in 1998, some Beanie Babies were selling in the secondary market for thousands of dollars, while others were selling for little more than their original purchase price. The range was vast, creating a demand for collectors' guides. Ty acknowledges as it must that a collectors' guide to a series of copyrighted works is no more a derivative work than a book review is. We cannot find a case on the point but the Copyright Act is clear. It defines a derivative work as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted."

17 U.S.C. § 101. A derivative work thus must either be in one of the forms named or be "recast, transformed, or adapted." *Lee v. A.R.T. Co.*, 125 F.3d 580, 582 (7th Cir. 1997). The textual portions of a collectors' guide to copyrighted works are not among the examples of derivative works listed in the statute, and guides don't recast, transform, or adapt the things to which they are guides. A guide to Parisian restaurants is not a recasting, transforming, or adapting of Parisian restaurants. Indeed, a collectors' guide is very much like a book review, which is a guide to a book and which no one supposes is a derivative work. Both the book review and the collectors' guide are critical and evaluative as well as purely informational; and ownership of a copyright does not confer a legal right to control public evaluation of the copyrighted work.

Ty's concession that a Beanie Babies collectors' guide is not a derivative work narrows the issue presented by PIL's appeal nicely (at least as to those books that are plausibly regarded as collectors' guides) to whether PIL copied more than it had to in order to produce a marketable collectors' guide. Ty points out that PIL's books copied (more precisely, made photographic copies of) the entire line of Beanie Babies, just like the book reviewer who copies the entire book. But the cases are clear that a complete copy is not per se an unfair use, see, e.g., *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 447-50 (1984); *id.* at 480 (dissenting opinion); *Worldwide Church of God v. Philadelphia Church of God, Inc., supra*, 227 F.3d at 1118, and the suggested analogy overlooks the fact that a collectors' guide, to compete in the marketplace, has to be comprehensive. Given that Ty can license (in fact has licensed) the publication of collectors'

guides that contain photos of all the Beanie Babies, how could a competitor forbidden to publish photos of the complete line compete? And if it couldn't compete, the result would be to deliver into Ty's hands a monopoly of Beanie Baby collectors' guides even though Ty acknowledges that such guides are not derivative works and do not become such by being licensed by it. *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 145 n.11 (2d Cir. 1998) ("by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work, a copyright owner plainly cannot prevent others from entering those fair use markets"); see *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596, 607-08 (9th Cir. 2000); *Twin Peaks Productions, Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366, 1377 (2d Cir. 1993) ("the author of 'Twin Peaks' cannot preserve for itself the entire field of publishable works that wish to cash in on the 'Twin Peaks' phenomenon").

Granted, there is some question how, if Beanie Babies collectors' guides are indeed a complement to Beanie Babies (and they are), and Ty has a monopoly of Beanie Babies (and it does), Ty can get a second monopoly profit by taking over the guides market. The higher the price it charges for guides, the lower will be the demand for such guides and hence for collecting Beanie Babies and so the less effective will Ty's strategy of marketing Beanie Babies as collectibles be. This is the sort of question that has engendered skepticism among economists about the antitrust rule against tie-in agreements. But there is an answer here: Ty wants to suppress criticism of its product in these guides.

Ty goes so far as to argue that PIL not only cannot publish photos of *all* the Beanie Babies but cannot publish color photos of *any* of them, and perhaps cannot publish black and white photos of any of them or even sketches but must instead be content with the name of the Beanie Baby and a verbal description. Such a guide would sink like a stone in the marketplace no matter how clever and informative its text, since Ty licenses publishers to publish photos of all the Beanie Babies in the licensees' collectors' guides. It would be like trying to compete with a CD of Beethoven's *Fifth Symphony* by selling the score.

We have thus far discussed the application of the fair-use doctrine in terms of the purpose of the doctrine rather than its statutory definition, which though extensive is not illuminating. (More can be less, even in law.) The statute provides that "the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching . . . scholarship or research, is not an infringement of copyright." 17 U.S.C. § 107. (Notice that the purposes listed are illustrative rather than comprehensive. *Campbell v. Acuff-Rose Music, Inc., supra*, 510 U.S. at 577-78.) In deciding whether a particular use is fair, the "factors to be considered shall include" — and notice again that the listing is illustrative rather than exhaustive; Congress "intended that courts continue the common law tradition of fair use adjudication" and [section 107] "permits and requires courts to avoid rigid application of the copyright statute, when, on occasion, it would stifle the very creativity which that law is designed to foster," *id.* at 577 —" (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work." Factors (1) and (2) are empty, except that (1) suggests a preference for noncommercial educational uses, picking up the reference earlier in the statute to "teaching . . . scholarship or research." Factor (3) is inapplicable to Beanie Babies, each one of which is copyrighted separately, so that there can be no partial copying as a matter of fact (no one, we imagine, wants a photograph of part of a Beanie Baby). Factor (4) at least glances at the distinction we noted earlier between substitute and complementary copying, since the latter does not impair the potential market or value of the copyrighted work except insofar as it criticizes the work, which is the opposite of taking a free ride on its value.

The important point is simply that, as the Supreme Court made clear not only in *Campbell* but also in *Sony Corp. v. Universal City Studios, supra,* 464 U.S. at 448-49 n.31, the four factors are a checklist of things to be considered rather than a formula for decision; and likewise the list of statutory purposes. See also *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., supra,* 150 F.3d at 141; *Ringgold v. Black Entertainment Television, Inc.,* 126 F.3d 70, 78 and n.9 (2d Cir. 1997). Because the factors and purposes are not exhaustive, Ty can get nowhere in defending the judgment by arguing that some or even all of them lean against the defense of fair use. The question is whether it would be unreasonable to conclude, with reference to one or more of the enjoined publications, such as the *Beanie Babies Collector's Guide*, that the use of the photos is a fair use because it is the only way to prepare a collectors' guide.

Appendix A

Ty relies primarily on two cases. *Twin Peaks Productions, Inc. v. Publications International, Ltd., supra*, involved a book published by PIL concerning a television series. The book included a detailed recounting of the plot of the first eight episodes: "every intricate plot twist and element of character development appear in the Book in the same sequence as in the teleplays." 996 F.2d at 1373. The court held that the book was basically an abridgment of the script and that abridgments (despite contrary, aged authority) are generally not fair use. *Id.* at 1375-76. The plot summaries were so extensive as to be substitutes for rather than complements of the copyrighted scripts.

The other case on which Ty principally relies, *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., supra*, involved another television series, *Seinfeld*, and another book, *The Seinfeld Aptitude Test*, a collection of trivia questions testing viewers' knowledge of obscure details of the series' plot and characters. There was evident complementarity: people who bought the book *had* to watch the show in order to pick up the answers to the questions in the book; no one would read the book in lieu of watching the show. When the book first appeared, the show's producers requested free copies and distributed them as promotional material, 150 F.3d at 136; and the book's blurb told readers to "open this book to satisfy your between-episode cravings." *Id.* The court nevertheless held that the book wasn't insulated from copyright liability by the doctrine of fair use. The holding seems to rest in part, and very dubiously we must say, on the court's judgment that the book was frivolous. *Id.* at 146: "Undoubtedly, innumerable books could 'expose' the 'nothingness' or otherwise comment upon, criticize, educate

the public about, or research *Seinfeld* and contemporary television culture. *The [Seinfeld Aptitude Test]*, however, is not such a book." But the fair-use doctrine is not intended to set up the courts as judges of the quality of expressive works. See *Campbell v. Acuff-Rose Music, Inc., supra*, 510 U.S. at 582-83. That would be an unreasonable burden to place on judges, as well as raising a First Amendment question.

But there was more to the court's decision. *The Seinfeld Aptitude Test* may have been a subterfuge for copying the script of the television series — and the script was a derivative work. The court said that "each 'fact' tested by The SAT is in reality fictitious expression created by Seinfeld's authors. The SAT does not quiz such true facts as the identity of the actors in Seinfeld, the number of days it takes to shoot an episode, the biographies of the actors, the location of the Seinfeld set, etc. Rather, The SAT tests whether the reader knows that the character Jerry places a Pez dispenser on Elaine's leg during a piano recital, that Kramer enjoys going to the airport because he's hypnotized by the baggage carousels, and that Jerry, opining on how to identify a virgin, said 'It's not like spotting a toupee.' " *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc., supra*, 150 F.3d at 139. A similar judgment might be possible here with regard to *For the Love of Beanie Babies*, which we described as basically just a picture book; and the pictures are derivative works from Ty's copyrighted soft sculptures. This raises the question whether, while summary judgment is plainly not warranted with regard to *all* the books that the district court found infringed Ty's copyrights, it might be warranted with regard to some of them, specifically *For the*

Love of Beanie Babies. However, three reasons counsel against this course. The first is that the record actually contains not one but three versions of *For the Love of Beanie Babies*, and our earlier description was of the one furthest removed from a collectors' guide; the others are closer. Second, Ty is not asking us to consider the appropriateness of partial summary judgment. Third, and related to the second point, the briefs do not analyze the various books separately, making us reluctant to rule separately on them. We do not preclude consideration on remand of the possibility of partial summary judgment.

The Rule 54(b) judgment (including of course the award of attorneys' fees to Ty) must, however, be reversed. For guidance on remand, we add that the district court also erred in refusing to apportion PIL's profits between those attributable to the photos and those attributable to the text. PIL's Beanie Baby books would have commanded lower prices in the marketplace had they had no text, and they would therefore have generated lower profits as well unless, as we doubt, the text is very costly to create. All that Ty is entitled to if it proves infringement on remand is the profits attributable to the photos, 17 U.S.C. § 504(b), a smaller amount than PIL's actual profits, although PIL would have the burden of proving how much smaller. *Id.*; *Harper & Row, Publishers, Inc. v. Nation Enterprises, supra*, 471 U.S. at 567; *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 402, 405-06 (1940); *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 407 (2d Cir. 1989).

Appendix A

REVERSED AND REMANDED.

A true Copy:

Teste:

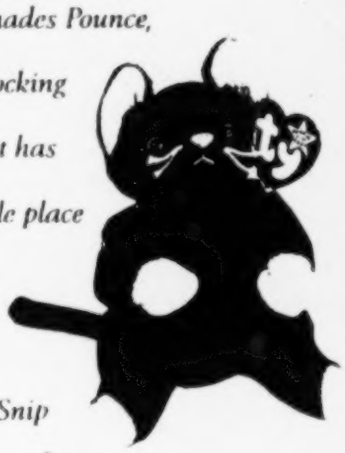
_____

Clerk of the United States Court of Appeals for the Seventh Circuit

Appendix A

Kitty Corner

When their owner's away, these cats will play! Trap the mouse might just regret his entrance into this feline fray—Zip is ready to pounce! Flip dirties his snow-white paws in the leafy plant that shades Pounce, who is relaxing on the rocking chair. Chip the calico cat has found a more comfortable place to curl up, while Nip has gotten up from his catnap to paw at a toy. Snip the Siamese cat unfurls a ball of yarn as Prance gets tangled in his own brand of mischief.



Appendix A

"KITTY KORNER" (FROM *FOR THE LOVE OF BEANIE BABIES*)

APPENDIX B — MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION DATED JUNE 6, 2001 AND DOCKETED JUNE 10, 2001

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

No. 99 C 5565
Judge James B. Zagel

TY, INC.,

Plaintiff,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Defendant.

MEMORANDUM OPINION AND ORDER

On October 10, 2000, I granted plaintiff's motion for summary judgment on its copyright claim. Before me now is plaintiff's motion for summary judgment on its claims for monetary relief.

Appendix B

I. Attorneys' Fees and Costs

Ty seeks reasonable attorneys' fees and costs. PIL asserts that I cannot grant Ty its attorneys' fees without first holding a hearing to determine whether PIL willfully infringed the Copyright Act, but it is wrong. Under Seventh Circuit law, a finding of willful infringement is not a necessary prerequisite to an award of attorneys' fees under the Copyright Act. See *Budget Cinema, Inc. v. Watertower Assoc.*, 81 F.3d 729, 732 (7th Cir. 1996) (lack of bad faith is not sufficient to deny attorneys' fees in copyright case); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 942 (7th Cir. 1989) (willfulness is not necessarily a prerequisite to an award of attorneys' fees in a copyright case).

The Copyright Act provides that "the court may . . . award a reasonable attorneys' fee to the prevailing party as part of the costs." 17 U.S.C. § 505. Attorneys' fees are to be awarded to prevailing parties as a matter of my discretion. I am to apply several nonexclusive factors to guide my discretion; in particular, I am to consider "frivolousness, motivation, objective unreasonableness (both factual and legal components), and the need in particular circumstances to advance considerations of compensation and deterrence." *Budget Cinema, Inc.*, 81 F.3d at 730 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

Awarding Ty its fees is appropriate under the circumstances because PIL's defense of the copyright claim was objectively unreasonable. The undisputed facts show that PIL approached Ty about obtaining a license before it published its collectors' guides. Ty refused to grant the

license, and later it sent PIL a "cease and desist" letter. PIL nonetheless published and sold nearly $2 million worth of Beanie Baby books and magazines. Defendant's publications contained large color photographs of Ty's protected expression on virtually every page.

In its defense of this lawsuit, PIL presented the same fair use and first amendment arguments that had previously been rejected by two other courts in analogous cases. See *Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366 (2d Cir. 1993) and *Publications International, Ltd. v. Bally Mfg. Corp.*, 1982 WL 52525 (N.D. Ill. 1982). Both of these courts found that PIL published books that infringed the copyrights of others.

PIL's purported reliance on the opinion of counsel does not help it since PIL concedes that counsel never saw a finished copy of the publications, and that counsel issued only informal oral opinions based on a "dummy" version of the infringing publications. Even if PIL did not knowingly infringe the Act, its actions were exceedingly careless to the point of recklessness. In the interest of deterrence and in view of PIL's objective unreasonableness, I award Ty its attorneys' fees.

II. Defendant's Profits

The Copyright Act gives a successful plaintiff a choice between statutory damages or defendant's profits attributable to the infringement. Ty has opted to seek PIL's profits.

Appendix B

The Act provides:

> In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work. 17 U.S.C. § 504(b).

The parties agree that PIL's total profits from the offending books were $1,972,163, and that PIL may deduct from this amount the cost of freight in the amount of $21,661. Four issues remain for me to decide regarding the calculation of profits; all can be determined as a matter of law.

The first issue is whether PIL can deduct the costs of all of the books published, or only those actually sold by PIL. PIL seeks to deduct the total publication cost of the four "magazine" versions of its book because it was necessary for PIL to print more than it would sell as a cost of doing business. Nearly all courts that have addressed this question have found that a copyright defendant is not entitled to reduce its liability by deducting from its gross revenue the cost of producing infringing copies that were never sold. I find that PIL may only deduct the cost of books sold, or $588,559. See *Basquiat v. Baghoomian*, 1992 WL 125529 * 2 (S.D.N.Y. 1992); *Dolori Fabrics, Inc. v. Limited, Inc.*, 662 F. Supp. 1347, 1357 (S.D.N.Y. 1987).

Appendix B

PIL's second quarrel with Ty's profit calculation is that it attributes all of the value of PIL's books to the infringing photographs and overlooks the possibility that a substantial percentage of the value of the books comes from editorial commentary. In support of its argument, PIL submitted an affidavit from Harry E. Croft, Jr., a purported expert collector who opines that the textual material contained in defendant's publications constituted 80% of the value of each publication. Plaintiff objects, quite rightly, that it has been over a year since discovery closed in this case. PIL has missed the Rule 26(a)(2)(c) deadline for filing its expert report. Consequently, under Fed. R. Civ. P. 37(c)(1), PIL is precluded from using Mr. Croft's report in support of this motion. PIL has provided no reason why it could not have disclosed this report during discovery, and it would work a hardship upon plaintiff to have to revise its damages strategy at this late stage.[1]

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1. Even absent the discovery deadline, PIL's apportionment argument would likely fail because of the ratio of infringing photographs to commentary in the books. Nearly every page of PIL's books contains one or more infringing photographs, and nearly all of the commentary makes reference to the infringing photographs. As such, it is impossible to assign a value to PIL's "contributions." Apportionment becomes impossible where the defendant's additions are hopelessly intertwined with the infringing material. See *Business Trends Analysts, Inc. v. Freedonia* Group, Inc. 887 F.2d 399 (2d Cir. 1989) (affirming lower court's refusal to apportion infringer's profits between the value created by the infringing material and the value created by defendant's material).

Appendix B

The parties also disagree about whether PIL can deduct a "retail display allowance" as a cost of advertising.[2] I express no opinion as to whether a retail display allowance qualifies as an advertising cost. I am excluding this deduction because defendant has produced no credible records for the retail display allowance. No mention was made of any advertising costs in response to Ty's numerous discovery requests, including a request for "all costs and expenses incurred by Defendants" and "all documents showing Defendants' advertising and promotional expense." Even at this late stage, the only documents in support of this claimed expense are a declaration from PIL's Chief Executive Officer and a self-serving computer generated print out. This is simply not enough. No deduction for advertising will be allowed.

Finally, PIL contends that Ty's award of profits should be reduced since Ty produced no copyright registration for thirty-four of the Beanie Babies in PIL's books. In response, Ty explains that twenty-two of these Beanie Babies are derivative works covered by registrations that have previously been submitted to this court. Seven other Beanie Babies that appear in PIL's books have changed names, but their registrations, too, are in the record. Ty concedes that through inadvertence, seven copyright registrations were not previously produced. Plaintiff's failure to produce seven out of several hundred copyright registrations does not affect my analysis or conclusions.

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2. A retail display allowance refers to the fees that PIL pays to stores which furnish the racks in which its magazines are displayed for sale.

Appendix B

Plaintiff's motion for summary judgment on its claims for monetary relief is granted. Ty is awarded PIL's profits from the infringing publications in the amount of $1,361,943.[3] Ty is also entitled to reasonable attorneys' fees and costs and prejudgment interest.

ENTER:

s/ James B. Zagel
James B. Zagel
United States District Judge

DATE: 6 June 2001

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3. I arrive at this number by subtracting the cost of books actually sold ($588,559) and the cost of freight ($21,661) from PIL's total revenue from the infringing books ($1,972,163).

APPENDIX C — MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION DATED OCTOBER 4, 2000 AND DOCKETED OCTOBER 6, 2000

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

No. 99 C 5565
Judge James B. Zagel

TY, INC.,

Plaintiff,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Defendant.

MEMORANDUM OPINION AND ORDER

Plaintiff, Ty, Inc. (Ty), is in the "plush business." It produces and sells soft toy animals. Defendant, Publications International, Ltd. (PIL), sells books about collectible toys. Ty sued PIL for copyright and trademark infringement in connection with PIL's sale of two collector's books that feature Ty's plush animals. Ty moves for summary judgment on both claims.

A brief description of Ty and its plush business is in order. Ty is elite among plush toy manufacturers, and indeed among all toy manufacturers. Its star product line, a collection of

bean-bag animals marketed as Beanie Babies®, ranks among the most popular collectible toys of all time. Ty's creations run the zoological gamut from Peking the panda, to Kiwi the toucan, to Nanook the Husky, and Stinger the scorpion — just to name a few. Ty holds the exclusive copyright to around 200 such animals. In addition to holding copyrights for the plush animals themselves, Ty is also the owner of several trademarks in connection with its plush toy collection.[1]

All in all, over 1 billion Beanie Babies have been sold since 1993. Though the excitement surrounding Beanie Babies has waned somewhat, the public demand for Ty's plush toys reached extraordinary levels in recent years. At stores around the country, Beanie Babies went out of stock just hours after delivery; parents who wanted to buy Beanie Babies for children were forced to make appointments with local retailers. There were even reports of Beanie Baby enthusiasts following UPS trucks from Ty's headquarters to assure first-pick of these coveted toys.[2]

The consumer frenzy over Beanie Babies can be attributed in part to Ty's unique marketing strategy. Ty creates scarcity in the market by selling its products only to small retail stores,

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1. These include United States Trademarks Registrations for the marks BEANIE BABIES® (Reg. No. 2,049,196), THE BEANIE BABIES COLLECTION® (Reg. No. 2,080,995), and TY HEART DESIGN® (Reg. No. 1,722,141), among others. Ty also owns the common law trademarks BEANIES, BEANIE BABIES, TEENIE BEANIE BABIES, BEANIE CONNECTION, ORIGINAL BEANIE BABY, and BEANIE BUDDIES.

2. See Pl.'s Mem. in Supp. of its Mot. for Prelim. Inj. Ex. 6.

and then only in small quantities. In addition, Ty periodically retires different Beanie Babies, taking them out of circulation and thus boosting their market value among collectors. Ty's marketing plan emphasizes the collectible nature of its products, and collectors are constantly on the look out for new Beanie Babies.

A thriving secondary Beanie Babies collector's market has emerged. Beanie Baby enthusiasts trade and sell Ty's products over the Internet, at yard sales, through classified ads, and through collectors' clubs. There have been hundreds — perhaps thousands — of newspaper articles and television news stories discussing the market for Beanie Babies, as well as a proliferation of Beanie-related web sites. Beanie Babies are not the exclusive province of child collectors. Ty's toys are sought after by potential investors who hope to capitalize on the sale of "rare" Babies, some of which fetch thousands of dollars at collectors' auctions.

The extraordinary public demand for Ty's Beanie Babies has resulted in numerous instances of counterfeiting and trademark and copyright infringement. An investigation in New York City, for example, revealed nearly a quarter of a million fake plush toys, resulting in criminal prosecutions. [Rogers Depo. p. 69]. Unlicensed Beanie Baby-related paraphernalia such as trading cards, children's books, cookbooks, and other publications have become the subject of legal battles. Two such allegedly infringing publications are at the center of this lawsuit.

Defendant, PIL, is an Illinois corporation. PIL's principal business is the production and publication of various books

including consumer price guides, children's books, and books about collectibles. In addition, under its registered trademark, Consumer Guide™, PIL publishes books about automobiles.

At issue in this case is whether two of PIL's recent publications, *For the Love of Beanie Babies* and *The Beanie Babies Collector's Guide*, violate Ty's copyright and trademark rights. A brief description of the contents of the allegedly infringing books follows:

(1) Both books feature Ty's registered trademark Beanie Babies® in its title. The words "Beanie Babies" appear in large colorful letters on the cover of both books.

(2) The covers of both books prominently display Ty's products. Tabasco the bull (Reg. No. 724842) and Goldie the Goldfish (Reg. No. 669364) appear on the front cover of *The Beanie Babies Collector's Guide*. Nine Beanie Babies including Inky the octopus and Ants the anteater are on the front cover of *For the Love of Beanie Babies*.

(3) *For the Love of Beanie Babies* contains color photographs of every item in Ty's Beanie Babies plush toy line that was in existence at the time the book was prepared, which amounts to 146 different toys. Photographs of Beanie Babies appear three to a page. Each photograph is accompanied by an explanatory note. In addition, at least twenty-four pages of the book contain color photographs of Beanie Babies in fanciful group and decorative

settings. For example, Ty's plush crab, otter, manatee and whale are featured in an underwater scene accompanied by the caption: "What a wet and wild bunch! These Beanie Babies make waves in their underwater playground."

(4) *The Beanie Babies Collector's Guide* contains color photographs of every item in Ty's Beanie Babies plush toy line that was in existence at the time the book was prepared, which amounts to about 200 toys. Nearly every page of the 160-page book features a large color photograph of a single Beanie Baby against a white background. Each picture is accompanied by an explanatory note which tells the reader its style number, release date, estimated market value, and other unique characteristics. Certain animals are "recommended" or "highly recommended" for purchase. By way of example, the explanatory note next to Seamore the seal reads:

> "Collectors who found Seamore before her October 1, 1997 retirement, were very lucky indeed. She was extremely difficult to find for months before her retirement. As a result, her post-retirement value has skyrocketed well past that of the other Beanies in her retirement class. Finding Seamore in mint condition with clean white plush can be tricky, but collectors who don't already have this seal should get her now. Her price is sure to continue upwards."

Appendix C

About fourteen pages at the beginning of *The Beanie Babies Collector's Guide* are devoted to commentary and advice for collectors. There are historical essays about the origins of Beanie Babies and Ty, Inc. There is advice about which collectibles are tipped to become valuable and cautionary notes about how to avoid counterfeits. There is extensive discussion about how the condition of each animal's heart-shaped hang tag adds or detracts from the value of the toy.

(5) In both of PIL's books, many of Ty's Beanie Babies are wearing their heart-shaped hang tags featuring the TY HEART® logo.

(6) PIL placed disclaimers on the cover and front page of each of its books. The disclaimer reads: "This publication is not authorized or licensed by Ty, Inc. Publications International, Ltd. is not affiliated with Ty, Inc." The disclaimer on *The Beanie Babies Collector's Guide* is in larger, bolder print than the disclaimer on *For the Love of Beanie Babies.*

(7) In addition to placing a disclaimer on the front cover, PIL used its own trademarks, "Consumer Guide™" and "Favorite Brand Name™" on various editions of *The Beanie Babies Collector's Guide.* PIL placed its own name on the cover of *For the Love of Beanie Babies.*

PIL produced and sold its books for a two-year period from mid-year 1998 until January 2000. During this time, PIL published two editions of *For the Love of Beanie Babies*

and four editions of *The Beanie Babies Collector's Guide.* The allegedly infringing books were sold in bookstores such as Barnes & Noble, Borders, Dalton and Walden, and over the Internet.

PIL never obtained or even asked for Ty's permission before publishing its books. PIL's CEO, Louis Weber, testified in deposition that before the allegedly infringing books were published, he obtained the advice of outside counsel who assured him that PIL's books did not violate Ty's intellectual property rights.

Ty has licensed its trademarks and copyrights to other publishers who produce guidebooks and magazines featuring Ty's plush toys. These include the publishers of *Collectors Value Guide for Beanie Babies*, *Encyclo-beaniea*, *My Beanie Baby Binder*, and others. Ty's licensees sell their wares over the Internet and in major supermarkets, drugstores, and book-stores, including Dominicks, Jewel/Osco, Barnes & Noble, and Borders. Ty collects substantial royalties from its licensees.

On August 7, 1998, Ty sent PIL a "cease and desist letter" demanding that the sale of infringing books cease. After receipt of the letter, Mr. Weber states that he again consulted outside counsel who advised him that PIL had a right to continue publishing the books. Between August 1998 and August 1999, PIL and Ty corresponded regarding a possible settlement. The negotiations came to an end when Ty learned that PIL published another edition of *The Beanie Babies Collector's Guide.*

At about the same time, Ty received a letter from one of its licensees, CheckerBee Publishing, complaining about PIL's books. The letter specifically complained that PIL was able to

sell its collectors' guides at a substantially reduced price because it was not paying royalties. Soon thereafter, Ty brought this lawsuit against PIL alleging (1) copyright infringement under the Copyright Laws of the United States, 17 U.S.C. § 101 *et seq.*, *(2)* trademark infringement, unfair competition and dilution under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, and (3) common law unfair competition under the laws of the State of Illinois.

I granted Ty's motion for a preliminary injunction on January 24, 2000. *Ty, Inc. v. Publications International, Ltd.*, 81 F. Supp. 2d 899 (N.D. Ill. 2000). Ty now moves for summary judgment on its copyright infringement and trademark infringement claims.

I. SUMMARY JUDGMENT STANDARD

A genuine issue of material fact exists for trial when, in viewing the record and all reasonable inferences drawn therefrom in a light most favorable to the non-moving party, a reasonable jury could return a verdict for the non-movant. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). The burden is on the moving party to show that no genuine issues of material fact exist. *Anderson*, 477 U.S. at 256, 106 S. Ct. 2505; *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986). Once the moving party presents a prima facie showing that he is entitled to judgment as a matter of law, the non-moving party may not rest upon the mere allegations or denials in its pleadings but must set forth specific facts showing that a genuine issue for trial exists. *Anderson*, 477 U.S. at 256-57, 106 S. Ct. 2505.

Appendix C

In a copyright or trademark case, should plaintiff establish a prima facie case of infringement, defendant carries the burden of presenting evidence to support its affirmative defenses. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 (1994). Summary judgment maybe an appropriate remedy in a copyright or trademark infringement suit where the defendant fails to show that there are material questions of fact with respect to its affirmative defenses. *Stewart v. Abend*, 495 U.S. 207, 110 S. Ct. 1750 (1990) (summary judgment for plaintiff in copyright infringement suit); *Blue Ribbon Feed Co. v. Farmer's Union Central Exchange, Inc.*, 731 F.2d 415 (7th Cir. 1984) (summary judgment for plaintiff in trademark infringement suit).

II. COPYRIGHT INFRINGEMENT CLAIMS

Ty argues that PIL violated its intellectual property rights under 17 U.S.C. §§§ 101-803 (the Copyright Act of 1976) by publishing and selling its collector's books, each of which contain unauthorized reproductions of Ty's protected works. The Copyright Act grants copyright owners exclusive rights to reproduce the copyrighted work and to prepare derivative works based upon the copyrighted work. See 17 U.S.C. § 106. The manufacture, distribution and/or sale of an unauthorized copy which is substantially similar to a protected work infringes on the copyright in the work. See 17 U.S.C. §§ 106, 501(a), 504. A prima facie case of copyright infringement is established when (1) the plaintiff shows that he owns valid copyrights and (2) defendant copied the protected work. *Wildlife Express Co. v. Carol Wright Sales, Inc.*, 18 F.3d 502, 507 (7th Cir. 1994).

Appendix C

Prima Facie Case of Copyright Infringement

The parties do not dispute that Ty has either applied for or has obtained copyright registrations from the United States Copyright Office for each item in its Beanie Babies® collection. PIL protests that this court does not have before it evidence of which of Ty's Beanie Babies are copyrighted. (Def's Resp. to Pl.'s St. of Material Facts ¶ 4). This is not true. Ty has submitted over 160 certificates of registration that correspond to the plush toys featured in PIL's guides. Certificates of registration, such as those attached to Ty's complaint and its Rule 56 Statement of Material Facts, are prima facie evidence of valid copyrights. The fact that the Copyright Office declined to issue separate copyright registrations for a few Beanie Baby toys that were a different color than (but based upon the same pattern as) a previously registered toy, is not material. Those plush toys that were refused copyright registration are still protected derivative works. See Nimmer on Copyright § 7.16[B][2]. Moreover, PIL has not identified a single Beanie Baby contained in its books that does not have a corresponding certificate of registration. Ty satisfies the first element of a prima facie copyright claim.

There is likewise no dispute that the pictures of Beanie Babies in PIL's books are photographic reproductions of Ty's copyrighted works. Ty has, therefore, established a prima facie case of copyright infringement. *Wildlife Express Co. v. Carol Wright Sales, Inc.*, 18 F.3d 502, 507 (7th Cir. 1994).

Appendix C

Fair Use Defense

PIL asserts that even if its books copy Ty's protected work, it is protected by the "fair use" doctrine. The Copyright Act of 1976 provides that: "the fair use of a copyrighted work, including use by reproduction in copies . . . for purposes such as criticism, comment, news reporting, teaching . . . scholarship or research, is not an infringement of copyright." 17 U.S.C. § 107. In determining whether a defendant's use of a copyrighted work is fair use, the factors to be considered are: (1) the purpose and character of the use (2) the nature of the copyrighted work (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole, and (4) the effect of the use upon the potential market for or value of the work. *Id.*

1. Purpose of the Use

The first fair use factor is the "purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit or educational purposes." 17 U. S.C. § 107(1). There are actually two separate inquiries to be conducted here. The first is whether the work is primarily commercial in nature, or whether it aspires to serve broader public purposes. See *Paramount Pictures*, 11 F. Supp. 2d 329, 334 (S.D.N.Y. 1998).

While acknowledging the commercial nature of its books (Weber Dep. p. 88), PIL argues that the publication of an independent Beanie Babies collector's guide is in the public interest. PIL characterizes Ty as being secretive and unhelpful to Beanie Babies collectors, citing the fact that it "refuses"

to authenticate its toys for individual collectors, does not list its name or address in telephone directories, and has a policy against its employees giving interviews. While PIL may have been motivated to some extent by Ty's allegedly objectionable consumer relations practices, PIL is a publishing business, not a consumer protection organization. I find that its books are primarily commercial in nature. See *Paramount Pictures*, 11 F. Supp. 2d at 334 (in copyright suit involving a book about the television series, *Star Trek*, the profit inquiry favored plaintiff, even though defendant was partially motivated by a genuine desire to help others understand the idiosyncracies of *Star Trek* fans). While PIL's commercial purpose is a point in Ty's favor, 17 U.S.C. § 107(1), the profit element of the fair use calculus is not itself controlling.

The second part of the inquiry asks whether PIL's books are "transformative." A work is transformative when it adds something new with a "further purpose or different character," altering the protected work "with new expression, meaning, or message." *Campbell v. A cuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). PIL claims that its books are transformative works of "comment" or "criticism." In support of this argument, PIL points out that each photograph is accompanied by a paragraph containing important collectors' information including: birth dates, release dates, whether a doll is scarce or common, how the hang tag adds or depreciates the doll's value, and how to avoid counterfeits. PIL's books also contain historical essays on the origins of Beanie Babies, a commentary on the ethics of "re-tagging," and recommendations as to which Babies present the best investment potential. In short, PIL argues, Ty makes plush animals; it makes books of independent commentary.

Appendix C

The fact that PIL has chosen to publish books about Beanie Babies does not preclude its reliance on the "comment" or "criticism" prongs of § 107. Commentary and criticism about stuffed animals is, in theory, as eligible for fair use protection as commentary on other, more erudite subjects. *Twin Peaks Productions, Inc. v. Publications International, Ltd.*, 996 F.2d 1366, 1373 (2nd Cir. 1993) ("a comment is as eligible for fair use protection when it concerns 'Masterpiece Theater' as when it concerns 'As the World Turns.' ")

The fatal flaw in PIL's "criticism" and "commentary" argument is its failure to adequately address the ratio of infringing photographs to edifying commentary in its books. PIL's use of Ty's protected expression consists of hundreds of color photographs. While some identification of the subject matter of a work of criticism must occur before comment may be made, the sheer number of photographs of Beanie Babies in PIL's books go "far beyond merely identifying their basic outline for the transformative purposes of commentary or criticism." *Twin Peaks*, 996 F.2d at 1375. See also *Paramount Pictures*, 11 F. Supp. 2d 329 (S.D.N.Y. 1998) (book containing numerous plot summaries of episodes of television series, *Star Trek*, was not transformative because it "added nothing substantial to the *Star Trek* story"); *Castle Rock Entertainment, Inc. v. Carol Pub. Group, Inc.*, 150 F.3d 132 (2d Cir. 1998) (book containing 643 trivia questions about episodes of the television series *Seinfeld* was not transformative, but merely an attempt to "repackage *Seinfeld* to entertain *Seinfeld* viewers."); *Horn v. Abbot, Ltd. v. Sarsaparilla Ltd.*, 601 F. Supp. 360, 367 (N.D. Ill. 1984) (book containing copies of *Trivial Pursuit* questions was not

transformative; although defendant publisher did "research" the questions and "comment on them," the verbatim use of all 6,000 questions precluded a finding that the book was commentary or criticism).

I also note that this court has previously rejected the argument that the publisher of an unlicensed Beanie Babies collector's guide created a transformative work of criticism. *Ty v. West Highland*, 1998 WL 698922 * 13 (N.D. Ill. 1998). Judge Norgle found that, although the defendant's publications included editorial and information, "they also include photographs of Ty's copyrighted products." I agree that "if [defendant's] primary objective was merely to provide some form of editorial comment or information about Beanie Babies, it could have done so without the use of the photographs." *Id.*

PIL's books are essentially Beanie Baby catalogues with a very limited amount of commentary to go with the pictures. The first factor favors Ty.

2. Nature of the copyrighted work

The second factor, "the nature of the copyrighted work," 17 U.S.C. § 107(2), calls for recognition of the fact that "some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell*, 510 U.S. at 586. In other words, creative works which "owe their origin to an act of authorship" are deemed more deserving of copyright protection than products like catalogues or telephone directories that simply sort and

compile facts. *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 364 (1991). Beanie Babies are "creative, fictional" works that spring from the imagination of Ty's creative team. *Ty v. West Highland*, 1998 WL 698922 * 14 (N.D. Ill. 1998). The second factor favors Ty.

3. Amount and substantiality of work used

The third factor considers "the amount and substantiality of the portion used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). The amount of copied material considered in isolation does not suffice for a determination that the third factor favors the plaintiff. I must instead focus my inquiry upon "whether the extent . . . of copying" goes farther than necessary to "further the purpose and character" of the purported use. *Campbell*, 510 U.S. at 586. In the instant case, this inquiry overlaps with the first fair use factor, which I have already determined in Ty's favor.

Having photographed about 140 Beanie Babies in each of its publications, PIL cannot argue that it made minimal use of Ty's work. Instead, PIL submits that as a "reviewer," it may fairly cite largely from an original work, "if his design uses the passages for the purposes of fair and reasonable criticism." (Def's Mem. at 6) (quoting *Folsom v. Marsh*, F. Cas. 342, 344 (C.C.D. Mass. 1841)).

In defense of its substantial appropriation of Ty's protected works, PIL argues that without photographs, it would be virtually impossible to describe and discuss Beanie Babies. Certain Beanie Babies are difficult to distinguish, PIL argues,

and a collector's guide must contain photographs to capture and explain these distinctions. In particular, PIL gives six examples of toys that look different but share the same or similar names (for example, royal blue and light blue Peanut the elephant; Pinchers and Punchers the lobster).

In support of this argument, PIL seeks to introduce the report of a consumer survey by RL Associates entitled "Consumers' Perceptions of the Need for and Significant Features of Collector's Guides." (Giampietro Decl., Ex. 17). The survey of 243 individuals conducted at shopping malls across the country concludes that (1) collectors use guides as an important part of the collecting process, and (2) collectors believe that photographs are an essential feature of guides. Ty objects to the survey on the ground that it has been improperly authenticated. I decline to consider the survey for a different reason. It is immaterial. All it establishes is the unremarkable fact that collector's guides with pictures are more popular among the consuming public than those without pictures. The fair use doctrine allows the use of copyrighted works in a reasonable manner for a limited purpose. It does not grant PIL the right to use as much copyrighted material as it needs to make its product commercially popular.

PIL might have written a book about Beanie Babies in which it employed drawings, limited numbers of photographs, or verbal descriptions to distinguish between similar toys. Instead, PIL's books contain color photographs of *every* item in Ty's Beanie Babies product line at the time of publication. These large color photographs feature Ty's products, viewed

unobstructed, against a plain grey or white background.[3] In *For the Love of Beanie Babies*, Ty's products are photographed in fanciful group settings. Both the number of Beanie Babies found in PIL's books and their clear depiction in photographs are chief selling points, as PIL itself acknowledges in its advertising materials:

> "[O]ther guides show only sketches of each Beany Baby or cram several photos onto one page, but Beanie Babies Collector's Guide features beautiful full-color photography and displays each Beanie Baby on its page."

The copying in PIL's books goes much further than necessary to "further the purpose and character" of a work of commentary or criticism about Beanie Babies. *Campbell*, 510 U. S. at 586. The third fair use factor favors Ty.

4. Effect of the use on the potential market for or value of the copyrighted work

In connection with the fourth fair use factor, I must consider "the extent of market harm caused by the particular actions

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3. Conceding that its books contain photographs of Ty's copyrighted toys, PIL nonetheless protests that the "photos are of only one view of each three dimensional toy." I can only say that the copyright laws would offer precious little protection if they were construed only to prohibit unauthorized copying in the same medium. See 2 Nimmer on Copyright § 801 [B] ("The fact that a work in one medium has been copied from a work in another medium does not render it any the less a 'copy.' "); *Rogers v. Koons*, 960 F.2d 301 (2nd Cir. 1992) (discussing the capacity of the copyright law to protect a photographer whose work was copied by a sculptor).

of the alleged infringer and [whether] unrestricted and widespread conduct of the sort engaged in by [defendant] . . . would result in a substantially adverse impact on the potential market for the original." *Campbell*, 510 U.S. at 590. I must also consider harm to the market for derivative works, which is the market that "creators of original works would in general develop or license others to develop." *Id.* at 590, 592. To prevail on this fair use factor, Ty must only demonstrate that "if the unauthorized use becomes 'widespread,' it would prejudice his potential market for his work." *Harper & Row Publications, Inc. v. Nation Enterprises*, 471 U.S. 539, 568 (1985).

PIL says that its publications do not harm the original market for Beanie Babies, since "they are meant to accompany Ty's products, not replace them." If anything, PIL argues, its books encourage interest in Ty's plush collectibles. Even if this were true, it would not help PIL's case. See 3 Nimmer s 13.05[B](even though an infringing movie adaptation of a book may boost book sales, it is an unfair use because of the effect on the potential sale of adaptation rights); See *Paramount Pictures*, 11 F. Supp. 2d at 334 (book about Star Trek interfered with plaintiff's market for derivative works such as guidebooks).

As to the question of harm to Ty's derivative works, PIL asserts that "[p]laintiff has introduced no evidence that Defendant's books compete directly with any products licensed by Ty." This is simply not true. Ty has demonstrated that it licenses at least six collector's guides all of which contain information similar both in content and format to that found in PIL's book. (See Pl.'s Mem. in Supp. of Summ.

J., Ex G-J and N-S). *The Beanie Baby Handbook*, for example, like PIL's publications, is a one-Baby per page collector's guide with information about each toy's release date, estimated value, birth date, and a recommendation as to whether to purchase. Moreover, PIL's infringing books are sold in the same locations in which Ty's licensees sell their products, including Barnes & Noble, Borders, and over the Internet.

Finally, Ty points out, PIL's own marketing materials invite the reader to compare PIL's *Beanie Babies Collector's Guide* to, among other things, the *Collector's Value Guide*, which is a book licensed by Ty. I find that PIL's guides are a "substitute for a derivative market" that Ty licenses others to develop. *Castle Rock Entertainment, Inc.*, 150 F.3d at 145. The fourth factor favors Ty.

5. Aggregate Fair Use Assessment

As described above, each of the four fair use factors weighs against PIL's claim of fair use. The copyright law's objective "[t]o promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8, would be undermined by permitting PIL to produce and sell the books in question. I reject PIL's fair use defense.

Other Defenses

PIL's argument in support of its First Amendment defense on summary judgment is no different than the one I rejected in my opinion granting Ty's preliminary injunction. I remain unpersuaded for the reasons I articulated in that opinion. *Ty, Inc. v. Publications International, Ltd.*, 81 F. Supp. 2d 899,

901-02 (N.D. Ill. 2000). See also *Twin Peaks Productions, Inc. v. Publications International, Ltd.*, 996 F.2d 1366, 1377 (2d Cir. 1993) (except in an extraordinary case, "the fair use doctrine encompasses all claims of first amendment in the copyright field."); *Castle Rock Entertainment*, 150 F.3d at 146 ("free speech . . . considerations are of little relevance" in a case involving "garden-variety infringement of creative fictional works.") As this court has held in a factually similar case, "[defendant] could have freely written about Ty's Beanie Babies without infringing upon Ty's intellectual property rights." *Ty v. West Highland*, 1998 WL 698922 * 18 (N.D. Ill. 1999) (Norgle, J.).

In its answer to Ty's complaint, PIL asserted other affirmative defenses including estoppel, the doctrine of first sale, and unfair competition and monopoly. To establish estoppel in a copyright action, the party to be estopped must be shown to have knowledge of defendant's infringing conduct and to have intended or actually induced such reliance. *Bourne Co. v. Hunter Country Club, Inc.*, 990 F.2d 934, 937 (7th Cir. 1993). Ty never authorized PIL to copy its protected works. Ty sent PIL a "cease and desist" letter immediately after it learned about PIL's infringement. Ty has aggressively prosecuted this case since its inception. PIL disputes none of this. There is no evidence on the record to support a defense of estoppel.

As to the defenses of first sale, unfair competition, and monopoly, PIL has waived them by failing to argue them. I therefore grant Ty's motion for summary judgment on its copyright claim.

Appendix C

III. TRADEMARK INFRINGEMENT CLAIMS

Ty seeks summary judgment in its favor on its federal statutory and common law trademark infringement claims pursuant to § 1114(1)(a) and § 1125(a) of the Lanham Act. Ty argues that PIL's use of the registered mark "Beanie Babies" in the titles of its two collector's guides, as well as PIL's reproduction of Ty's trademarks and logos throughout its books infringes Ty's trademark rights.

In order to establish a prima facie case of registered trademark infringement, Ty must establish that it owns valid registered trademarks and that PIL's use of these trademarks is "likely to cause confusion, or to cause mistake, or to deceive . . ." 15 U.S.C. § 1114(1)(a). Similarly, to prevail on its common law trademark infringement claim and its false designation of origin or unfair competition claims under Section 43(a) of the Lanham Act, Ty must establish that it has a protectable trademark and that a likelihood of confusion exists. Customer confusion need not be restricted to confusion over the source of the goods. I must also consider whether a customer buying one of PIL's books would likely believe that it is "in some way related to, or connected or affliated with, or sponsored by" the Plaintiff Ty. *Nike, Inc. v. "Just Did It" Enterprises*, 6 F.3d 1225, 1228 (7th Cir. 1993).

Ownership of Registered Trademark

Turning to the first statutory factor, I find that there is no dispute regarding Ty's ownership of its registered trademarks. Ty has presented me with trademark registrations for the marks: Beanie Babies®, The Beanie Babies Collection®,

Ty®, and the Ty Heart® logo. These registrations are "prima facie evidence of the validity of the registered mark and of the registration of the mark." 15 U.S.C. § 1115(a). Ty satisfies the first prong of the trademark liability test.

Likelihood of Confusion

When assessing likelihood for consumer confusion, this circuit looks to seven factors: (1) similarity between the marks in appearance and suggestion; (2) similarity of the products; (3) area and manner of concurrent use; (4) degree of care likely to be exercised by consumers; (5) strength of complainant's mark; (6) actual confusion (7) intent of defendant to "palm off his product as that of another." *AHP Subsidiary Holding Co. v. Stuart Hale Co.*, 1 F.3d 611, 615 (7th Cir. 1993); *McGraw-Edison Co. v. Walt Disney Productions*, 787 F.2d 1163, 1167-68 (7th Cir. 1986).

The list of factors is not exclusive, nor does any one factor end the inquiry. *McGraw-Edison Co.*, 787 F.2d at 1168. Here, PIL is not required to refute each and every factor to avoid summary judgment for the plaintiff. Rather, the weight and totality of the most important factors in each case will ultimately be determinative of the likelihood of confusion, not whether the majority of the factors tilt the scale in favor of one side or the other. *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1187 (7th Cir. 1989).

When I had occasion to examine the likelihood of confusion factors in the context of Ty's motion for a preliminary injunction, I considered that there was "a substantial likelihood of confusion" as to the source or sponsorship of

PIL's books. At that stage in the proceedings, I had only to determine whether Ty's chances of demonstrating likelihood of confusion were "better than negligible." *Meridian Mutual Insurance Co. v. Meridian Insurance Group, Inc.*, 128 F.3d 1111, 1115 (7th Cir. 1997). My analysis of the likelihood of confusion factors at the preliminary injunction stage does not bind me with respect to Ty's motion for summary judgment. *Ayres v. City of Chicago*, 125 F.3d 1010, 1013 (7th Cir. 1997) ([f]indings supporting the issuance of a preliminary injunction are not binding upon the merits of the case and are not the law of the case). Ty's burden of proof on the likelihood of confusion prong is much higher here.

I also note that as a general rule, "a motion for summary judgment in trademark infringement cases must be approached with great caution." *AHP Subsidiary Holding Co.*, 1 F.3d at 616 (7th Cir. 1993) (reversing grant of summary judgment for defendant where issues of fact existed regarding likelihood of consumer confusion); *Nike, Inc. v. "Just Did It" Enterprises*, 6 F.3d 1225, 1230 (7th Cir. 1993) (reversing grant of summary judgment for plaintiff where too many disputed facts required a trial for resolution). This is because the likelihood of consumer confusion is "a question of fact and can only rarely be resolved on a Motion for Summary Judgment." *Midway Manufacturing Co. v. PIL*, 1994 WL 188531 *2 (N.D. Ill. 1994); *Ty v. West Highland*, *16 (the determination as to whether there is a likelihood of confusion is intensely fact-based).

Appendix C

1. Similarity of marks in appearance and suggestion

The registered trademark "Beanie Babies" is incorporated in the title and used on the cover of each of PIL's books. In addition, PIL's books include photographs of Beanie Babies wearing the Ty Heart logo. In determining whether PIL's use of Ty's marks causes confusion, I must consider PIL's use "in light of what happens in the marketplace," among those who buy or consider buying PIL's books. *Meridian Mutual Insurance Co.*, 128 F.3d at 1115.

Ty argues that courts that have consistently ruled that the use of trademarks in book titles supports a claim for trademark infringement.[4] I think that the issue of whether a trademarked phrase can be incorporated into the title of a book is not quite as simple as Ty describes it. Using a trademarked name in a book title is not a per se violation of the Lanham Act. *Twin Peaks Productions, Inc.*, 996 F.2d at 1379. Literary titles, for example, do not violate the Lanham Act "unless the title has no artistic relevance to the underlying

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4. Ty cites the following cases to that effect: *Selchow & Righer Co. v. McGraw-Hill Book Co.*, 580 F.2d 25, 28 (2nd Cir. 1978) (upholding grant of preliminary injunction where defendant used plaintiff's SCRABBLE trademark in the title of its book); *Toho Co. Ltd. v. William Morrow and Co., Inc.*, 33 F. Supp. 2d 1206 (C.D. Cal. 1998) (preliminary injunction granted where publisher used plaintiff's trademark "Godzilla" in the title of his book); *Horn Abbot Ltd. v. Sarsaparilla Ltd.*, 601 F. Supp. 360, 365 (N.D. Ill. 1984) (temporary injunctive relief granted where defendant published unauthorized supplement to board game entitled "In Further Pursuit of Trivial Pursuit").

work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work." *Id.* at 1379 (quoting *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989)). In determining whether use of a trademarked name in a book title violates the Lanham Act, courts must give special consideration to the "wording and appearance" of the title on the book's cover. *Id.* A book title is more likely to violate the Lanham Act "when displayed in a manner that conjures up a visual image prominently associated with the work bearing the mark that was copied." *Id.* at 1380.

In the instant case, the words "Beanie Babies" on the cover of *The Beanie Babies Collector's Guide* are prominently displayed on the cover. The words appear in red, orange, and purple coloring and in a large type size. Ty's marks are similarly prominently displayed on the cover of *For the Love of Beanie Babies*. Unlike the cases that Ty cited, however, the protected mark, "Beanie Babies," does not appear in distinctive lettering, or against a background or design that a consumer would understand as emanating from the source of the makers of Beanie Babies. *Cf. Horn Abbot Ltd.*, 60 F. Supp. at 365 (TRO granted where defendant publisher of "supplement" to Trivial Pursuit board game mimicked plaintiff's distinctive blue background color and orange lettering on the cover of the infringing book); *Toho Co., Ltd. v. Morrow and Co.*, 33 F. Supp. 2d 1206, 1209 (C.D. Cal. 1998) (preliminary injunction granted where the title of the infringing book was "written in the distinctive lettering style used by [Plaintiff] and its licensees in their merchandising activities.") It is significant for the likelihood of confusion analysis that PIL has not displayed Ty's

trademarks in a manner that conjures up a visual image prominently associated with Ty's works.

PIL urges me to consider the fact that its books all contain marks identifying itself as the source of the product. PIL put one of its own trademarks (either Favorite Brand Name™ or Collector's Guide™) in a prominent location on the front cover of each edition of *The Beanie Babies Collector's Guide.* One version of this publication states that it is "by the authors of Collector's Guide." At least with respect to *The Beanie Babies Collector's Guide*, PIL's use of its own marks is a point in its favor. See *Pirone v. Macmillan, Inc.*, 894 F.2d 579, 584 (2d Cir. 1990) (use of Babe Ruth's name and likeness on defendant's baseball calendar did not cause likelihood of confusion "where the source of the publication is clearly indicated by the numerous prominent references to [defendant].")

PIL also asserts that all of the books in question have disclaimers on the front covers and first page, stating that the book "is not authorized or licensed by Ty, Inc." and that PIL "is not affiliated with Ty, Inc." While courts are not always convinced that a defendant's use of a disclaimer decreases the likelihood of confusion, *Horn Abbot Ltd.*, 60 F. Supp. at 366, I must consider the statutory factors in light of the specific circumstances presented in this case.

The instant case involves a trademark owner whose products have achieved a unique status among many members of the public. There is a thriving market for second-hand Beanie Babies. Many participants in this market buy and sell Ty's products in non-traditional arenas such as at yard sales,

through collectors' clubs, and over the Intemet.[5] Of course, it would be unreasonable to deny trademark protection to a manufacturer just because it had the "good fortune to have created a trade name. . . that became valued by the consuming public." *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 340 (7th Cir. 1985). The fact remains, however, that in the specific context of the market for Beanie Babies, a consumer may be less likely to think that any one publication about Beanie Babies emanates from, or is endorsed by Ty. A disclaimer may have more effect in these particular circumstances.

I also note that when courts have refused to consider disclaimers in the context of trademark disputes, it is frequently because they are unimpressed with the size or location of the disclaimer on the infringing product. See *Horn Abbot Ltd.*, 601 F. Supp. at 366 ("given the [disclaimer's] small print and the otherwise strong similarity between the two products, the consumer is still likely to be confused or deceived"); *Toho Co., Ltd. v. Morrow and Co.*, 33 F. Supp. 2d 1206, 1214 (C.D. Cal. 1998) (placement of the word "unauthorized" in small lettering at the extreme top edge of the front cover would not alert consumers as to product's source). Here, PIL's disclaimer appears on the front cover of

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5. Ty objects to PIL's submission of thousands of pages of Internet printouts demonstrating the existence of numerous unlicensed websites featuring Ty's Beanie Babies. Ty urges me not to consider these print outs because they are inadmissible hearsay. I need not reach this question. Ty's own submissions, including nearly 100 newspaper and magazine articles as well as the deposition testimony of its employees, is more than sufficient to demonstrate the existence of numerous websites (licensed and unlicensed) devoted to Ty's products.

each book; in *The Beanie Babies Collector's Guide*, it appears in bold lettering. In the specific context of this case, there is a question of fact as to whether PIL's use of disclaimers and its own brand names obviates a likelihood of confusion.

2. Similarity of the product

Ty has licensed other publishers to publish and sell magazines and books similar to PIL's books. Such licensed publications, including *Collector's Value Guide for Beanie Babies*, are similar in format and content to PIL's publications. Trademark law prohibits the use of Ty's mark on products that are closely related to Ty's works, as well as those products in direct competition. *Sands, Taylor, & Wood, Co. v. Quaker Oats Co.*, 978 F.2d 947, 958 (7th Cir. 1992). This factor favors Ty.

3. Area and manner of concurrent use

The concurrent use factor focuses on the overlap of promotion, distribution, and sales of the parties' goods. PIL's books were sold at bookstores such as Borders, Barnes & Noble, and over the Internet. Ty's licensees sell their books and magazines at the same outlets. This factor also favors Ty.

4. Degree of care likely to be exercised by consumers

The less care consumers take in purchasing a product, the greater the likelihood that similar marks will confuse customers to the source or sponsorship of the product. *Toho Co., Ltd. v. Morrow and Co.*, 33 F. Supp. 2d 1206, 1214 (C.D.

Cal. 1998). Relying on *AHP Subsidiary Holding Co. v. Stuart Hale, Co.*, 1 F.3d 611, 616 (7th Cir. 1993), Ty argues that consumers of Beanie Baby guides are likely to exercise little care when purchasing PIL's products because of their low cost. I note that this is contrary to a representation Ty made in another trademark case. *Imperial Toy Corp. v. Ty, Inc.*, 1998 WL 601875 at *4 (N.D. Ill. 1998) ("Ty, Inc. argues that . . . Beanie Baby customers are sophisticated about the product and will not be confused and will exercise care when purchasing . . .").

I tend to agree with Ty's previous characterization of its consumers. People who buy PIL's collector's books probably already know something about Beanie Babies. It is quite likely that they will have heard of Ty. After all, collectors of Beanie Babies are, by definition, brand conscious. It is part of their role as collectors to be constantly concerned with the authenticity of their plush toys and identifying tags. People who buy PIL's books may well notice the absence of the famous Ty Heart logo on the cover. Just as Beanie Baby collectors exercise care with respect to Ty's plush animals, there is some reason to believe that they will also exercise care as to their choice of collector's guides. I find that this factor weighs slightly in favor of PIL.

5. Strength of plaintiff's mark

The term "strength" as applied to trademarks refers to "the distinctiveness of the mark, or more precisely, its tendency to identify the goods sold under the mark as emanating from a particular source." *Sands, Taylor & Wood Co.*, 978 F.2d at 959. The Ty Heart Logo has been used on over 200 different

characters in connection with the sale of more than one billion plush toys since 1993. Hundreds of magazines and newspaper articles have reported on the "Beanie Babies" phenomenon. Beanie Babies received national recognition in connection with McDonalds promotions where over 300 million miniature Beanie Babies were distributed in Happy Meals from 1997 to 2000. Ty's marks are undeniably strong.

6. Actual confusion

Ty concedes that it cannot show evidence of an actual instance in which a consumer mistakenly believed that PIL's book was sponsored or endorsed by Ty. (Jeremias Deposition at 53; Rogers Deposition at 72). While this is a point in PIL's favor, I am mindful that Ty need not show actual confusion to establish "likelihood of confusion" under the Lanham Act. *AHP Subsidiary Holding*, 1 F.3d at 618; *Sands, Taylor & Wood Co.*, 978 F.2d at 960.

7. Intent

In the trademark infringement context, " 'intent' refers to the intent to confuse customers, not merely the intent to use a mark that is already in use somewhere else." *Meridian Mutual Insurance* Co., 128 F.3d at 1119. I am not convinced that PIL intended to "palm off" its books as Ty's products or products endorsed by Ty.

The instant case is distinguishable from the garden-variety trademark infringement case in which a defendant is clearly using a plaintiff's marks in a deceitful way. Consider, for example, *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22

(1st Cir. 1989). In that case, a defendant printed a T-shirt with the words "Boston Marathon," and sold them at the event, permitting the impression that his shirts were officially sponsored by the Boston Marathon. The court found the intent element satisfied since the use of plaintiff's trademark carried with it an "unmistakable aura of deception." *Id.* at 35. Similarly, in *Chrysler Corp. v. Newfield Publications, Inc.*, 880 F. Supp. 504 (E.D. Mich. 1995), a publisher's infringing collectible cards depicting Chrysler's automobiles satisfied the intent element in part because the cards contained a misleading caption reading: "photograph: courtesy of Chrysler." Ty's allegations as to PIL's intent do not reach the same level of deceitfulness. While PIL could have and should have taken more care to prevent the possibility of consumer confusion, I do not think that Ty's books carry with them an "unmistakable aura of deception."

In connection with the intent factor, I must also consider the deposition testimony of PIL's CEO, Louis Weber. Mr. Weber testified that before publishing his books he sought legal advice. He stated that outside counsel assured him that PIL's proposed publications would not violate Ty's intellectual property rights. While registering my skepticism about whether PIL's reliance on counsel's opinions was reasonable, I find that summary judgment is not the appropriate time to make final determinations as to credibility. *AHP Subsidiary Holding*, 1 F.3d at 618 (citing *Wilson v. Williams*, 997 F.2d 348, 350 (7th Cir. 1993). There are questions of fact as to PIL's intent.

Appendix C

8. Other (non-statutory) factors

I accord no weight to PIL's argument that plaintiff has forfeited its trademark rights by failing to police its trademarks. PIL's assertion that Ty allows "use of its trademarks by virtually everyone and anyone who wishes to do so" is frivolous. One has only to count the number of times that Ty has appeared before this court as plaintiff in copyright and trademark suits to know that Ty puts a great deal of effort into policing its intellectual property rights. In any event, evidence of other potential infringers is irrelevant to a suit against a particular infringer. *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1181 (9th Cir. 1985).

9. Summary of likelihood of confusion analysis

Sections 1114(1)(a) and 1125(a) of the Lanham Act confer a limited right to trademark owners; this is the right to prevent others from using its marks in a way that causes consumer confusion about the owner's sponsorship or endorsement of a product. *WCVB-TV v. Boston Athletic Association*, 926 F.2d 42, 45 (1st Cir. 1991). The issue at hand is not whether PIL used Ty's trademarks frequently, or whether it used them more than a company exercising sound professional and ethical judgment would have done. The sole issue to consider is whether consumers are likely to be confused about the source or sponsorship of PIL's books.

This is a very close case. Ultimately, however, I think that Ty has demonstrated a "possibility" of confusion rather than a "likelihood" of confusion. This is not enough. *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 663 (5th Cir.

2000) ("[l]ikelihood of confusion is synonymous with a probability of confusion, not possibility of confusion"). Given the questions of fact that remain about PIL's use of disclaimers and its own identifying marks, the degree of consumer care exercised in purchasing its books, and PIL's intent, I simply do not believe that Ty has presented me with sufficient evidence of likelihood of confusion to enter summary judgment on its behalf. Because a motion for summary judgment in a trademark infringement case must be approached with great caution, *AHP Subsidiary Holding Co. v. Stuart Hale, Co.*, 1 F.3d 611, 616 (7th Cir. 1993), I will not decide the likelihood of confusion analysis against PIL at this stage. I deny Ty's motion for summary judgment on its trademark infringement claims.

IV. DAMAGES

Since Ty has prevailed on its copyright claims, I must now consider the question of damages. I find that the damages question cannot be resolved without determining whether PIL's conduct in producing and selling its books should be considered willful or intentional copyright infringement.[6] The question of intent involves determinations of credibility which are best made after a full evidentiary hearing.

In addition to actual and statutory damages, Ty seeks (1) PIL's sales and revenues from the infringing products, (2) costs, (3) punitive damages, and (4) attorneys' fees. There

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6. Absent a finding of willful infringement, statutory damages for the violation of Ty's copyright rights may range from $750 to $30,000; if PIL's actions were willful, the statutory maximum is $150,000. 17 U.S.C. § 504(c)(2).

is also the dilemma of what to do with any infringing books that remain in stock. At present, I have no information as to how many infringing books are still in PIL's possession. I order PIL to supply this information in their brief. I note that in the past Ty has entered into settlement agreements in which infringers sold off their remaining stock, apportioning part of the profits to Ty. If substantial stock remains, the parties should consider this approach.

I withhold judgment on the issue of damages, pending briefing of these issues. I ask that the parties pay particular attention to the question of PIL's "reasonable reliance" on the advice of counsel in defense of Ty's allegation of willful infringement. I invite the parties to submit briefs on the issue of damages by November 15, 2000. I will schedule a date for an evidentiary hearing when the parties come before me on October 12, 2000.

V. CONCLUSION

Plaintiff's motion for summary judgment on its copyright claim is granted on the issue of liability alone. Plaintiff's motion for summary judgment on its trademark infringement claims is denied. I withhold decision on the issue of damages, pending briefing.

ENTER:

_____

James B. Zagel
United States District Judge

DATE: _____

APPENDIX D — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT DENYING PETITION FOR REHEARING DATED JULY 11, 2002

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT
Chicago, Illinois 60604

July 11, 2002

Before

Hon. Joel M. Flaum, *Chief Judge*

Hon. Richard A. Posner, *Circuit Judge*

Hon. Ilana Diamond Rovner, *Circuit Judge*

No. 01-3304

TY, INCORPORATED,

Plaintiff-Appellee,

v.

PUBLICATIONS INTERNATIONAL, LIMITED,

Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

Appendix D

No. 99 C 5565

James B. Zagel, *Judge*.

ORDER

On June 13, 2002 plaintiff-appellee filed a petition for rehearing and petition for rehearing *en banc* with appendix. All the judges on the original panel have voted to deny the petition, and none of the active judges has requested a vote on the petition for rehearing *en banc*. The petition is therefore **DENIED**.

APPENDIX E — PERTINENT STATUTES AND CONSTITUTIONAL PROVISIONS

U.S. Const. art. I, § 8, cl. 8

> The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
>
> * * *

17 U.S.C. § 101

> A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

Appendix E

17 U.S.C. § 106

Subject to sections 107 through 121, the owner of a copyright under this title has the exclusive rights to do and to authorize any of the following:

> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

* * *

17 U.S.C. § 107

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include —

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

(2)

Supreme Court, U.S.
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No. 02-727

IN THE

Supreme Court of the United States

TY INC.,

Petitioner,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF IN OPPOSITION

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19 PP

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Respondent, Publications International, Ltd., has no parent corporation and no publicly held company owns 10% or more of its stock.

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RESPONDENT'S BRIEF IN OPPOSITION

For the following reasons, Respondent Publications International, Ltd. ("PIL") respectfully requests that this Court deny the Petition for a Writ of Certiorari, seeking review of the Seventh Circuit's opinion in this case.

REASONS FOR DENYING THE PETITION

The question presented by the Petition, albeit in a somewhat more convoluted fashion, is whether the Seventh Circuit erred in holding (1) that the four statutory fair use factors set forth in 17 U.S.C. § 107 are "irrelevant as a matter of law," and (2) that the fair use doctrine provides the privilege "to use as much copyrighted material as is necessary to compete in the marketplace against copyrighted works or licensed derivatives." Pet. at i. Petitioner claims that these holdings conflict both with this Court's precedent and the precedent of various of the circuit courts. Pet. at 12-14. The fundamental problem with the Petition, however, is that these alleged holdings are nowhere to be found in the Judge Posner's opinion for the Seventh Circuit; they are a figment of Petitioner's imagination, created from scraps of dicta and analyses taken out of context.

Contrary to Petitioner's repeated representations, the Seventh Circuit did not announce a new fair use standard as a matter of law, supplanting the statutory factors with a new "marketability" test of general application. Nor did the court even find that the collectors' guides at issue made fair use of Petitioner's works.[1] Instead, the court rendered a

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1 Certainly, the court did not, as Petitioner represents, find that one of PIL's books "could probably be deemed infringing on summary judgment." Pet. at 8. Examination of the court's opinion at the locations cited by Petitioner for this inaccurate claim shows that the court properly

rather unremarkable decision: that Respondent raised sufficient factual questions on the issue of fair use so that fair use could *not* be decided as a matter of law in this case. In doing so, moreover, the court correctly cited and considered the statutory fair use factors in light of the remainder of § 107 as well as the established purpose and principles of the fair use doctrine.

Also missing from the Seventh Circuit's opinion is the holding, alleged by Petitioner, that fair use allows any copying necessary for a party to compete in the market against the copyrighted work or licensed works. Instead, the court merely noted the obvious: if fair use allows, as it must, a certain amount of copying for the criticism and commentary purposes of a collectors' guide, it must allow as much as is necessary to make the guide marketable. It makes little sense to say that a collectors' guide may make fair use of a copyrighted work for commentary and criticism, but may only copy enough to produce a guide that nobody will purchase or read.

Thus, the Seventh Circuit's opinion below does not raise the questions presented by the Petition; the fair use analysis therein is proper and conflicts neither with the precedent of this Court nor the precedent of any circuit court. The interlocutory nature of the court's ruling further militates against review by this Court at this time. The

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refused to find any of the ten publications at issue to be infringing. Pet. App. at 19a. The court merely stated that one of the ten versions seemed to have less of a commentary or criticism component, and so did not preclude a partial summary judgment on remand for that one version, noting that such a judgment "might be possible." Pet. App. at 18a. There is a large semantic and legal difference between "might be possible," as the court of appeals wrote, and "could probably be," as Petitioner falsely presented the court's statement.

Respondent respectfully urges this Honorable Court to deny the Petition for a Writ of Certiorari.

I.
THE SEVENTH CIRCUIT'S DECISION DOES NOT RAISE THE QUESTION PRESENTED

A. The Court Did Not Hold That the Statutory Fair Use Factors Are Irrelevant as a Matter of Law

Petitioner's argument is premised upon it's repeated claim that the Seventh Circuit failed to consider the four, non-exclusive fair use factors enumerated in Section 107 of the Copyright Act. Examination of the court's opinion, including the excerpts quoted in the Petition, plainly shows that the Seventh Circuit correctly cited the four factors as a necessary component of the fair use analysis and considered those factors in this case. More importantly, the Seventh Circuit's analysis is steeped in the purposes of fair use and is firmly anchored in the fundamental principles of copyright law that underpin the fair use defense.

As this Court has recognized, copyright law has from its infancy recognized fair use as an absolute defense to a claim of copyright infringement. *See, e.g., Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994). From the enactment of the first federal copyright statute, in 1790, until the enactment of the Copyright Act of 1976 (the '76 Act), the doctrine of fair use was absent from the operative statutes, but was recognized and developed as an equitable rule of reason by the courts on a case-by-case basis. *Id.* at 576. The doctrine recognizes that in some instances, copyright's constitutional mandate to promote the progress of the sciences requires that the public be allowed to make use of a copyrighted work, notwithstanding the owner's exclusive rights. *Id.* at 575.

With the passage of the '76 Act, Congress for the first time expressly endorsed the long-standing doctrine of fair use by including § 107 in the Act. Congress did not, as Petitioner inaccurately asserts, "codify" fair use, Pet. at 12, but instead "legislatively endorsed" the doctrine. *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 448 (1984). The difference is significant: by legislatively endorsing fair use, Congress recognized the long tradition of ad-hoc judicial application of the doctrine and the great degree of discretion granted the courts for precisely that purpose. *Id.* at 448-49 & n.31. In particular, the House Report explained:

> [a]lthough the courts have considered and ruled upon the fair use doctrine over and over again, no real definition of the concept has ever emerged. Indeed, since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts . . .

H.R. Rep. No. 94-1476, p.65 (1976).

From this history of judicial discretion, Congress distilled four of the factors most commonly considered in adjudicating the issue of fair use and included those factors in § 107 as an *illustrative* but nonexhaustive guide. *Id.* "Congress meant § 107 'to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way' and intended that the courts continue the common-law tradition of fair use adjudication." *Campbell*, 510 U.S. at 577 (quoting H.R. Rep. No. 94-1476, at 66). Far from presenting the four factors as a new, mechanically applicable test supplanting the traditional flexibility of fair use analysis, Congress meant to preserve the wide

discretion of the courts and made clear that the factors were meant to serve the principles of fair use, not vice-versa:

> The statement of the fair use doctrine in section 107 offers some guidance to users in determining when the principles of the doctrine apply. However, the endless variety of situations and combinations of circumstances that can rise in particular cases precludes the formulation of exact rules in the statute. . . . Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.

H.R. Rep. No. 94-1476, at 66.

Petitioner wishes to have the tail wag the dog, complaining that the Seventh Circuit's fair use analysis focused on the "purpose of the [fair use] doctrine rather than its statutory definition." Pet. at 9 (quoting Pet. App. at 15a). This complaint, however, is based upon a false dichotomy. The statutory factors were never meant to trump the purpose and principles of fair use; they were meant to be complementary.

Consistent with Congress's intent, the Seventh Circuit began its analysis with an exposition of the general purpose and principles of fair use. Pet. App. at 5a-8a. The court, using the examples of book reviews and parodies, focused on the doctrine's (and the text of § 107's) treatment of criticism and commentary as being paradigmatic fair use purposes. The court also noted that works of criticism and comment generally make complementary (or transformative, in first factor terms), as opposed to

substitutional (or superseding, in first factor terms) use of the underlying work. Pet. App. at 6a-8a.

The Seventh Circuit next analyzed the specific facts of this case in light of the purpose and principles of fair use, finding that, while it was a "fact-laden issue" inappropriate for disposition on Petitioner's motion for summary judgment, a reasonable jury could certainly find that PIL's collectors' guides were works of criticism and commentary, similar to book reviews or parodies. Pet. App. 8a-13a. Having found that PIL's guides could be considered commentary and criticism, the court next noted that fair use precludes a copyright owner from monopolizing any market for such criticism or commentary, and that therefore any alleged economic harm to that market is irrelevant to the fair use analysis. Pet. App. at 13a. Summing it up, the court noted:

> Indeed, a collectors' guide is very much like a book review, which is a guide to a book and which no one supposes is a derivative work. Both the book review and the collectors' guide are critical and evaluative as well as purely informational; and ownership of a copyright does not confer a legal right to control public evaluations of the copyrighted work.

Id.

Having determined that PIL's collectors' guides, as forms of criticism and commentary, could not cause any economic harm recognized by the Copyright Act, the court noted that the fair use determination turned upon "whether PIL copied more than it had to in order to produce a marketable collectors' guide." *Id.* On this score, the court noted that in order to effectively comment on the beanie

babies (which are, after all, visual works), a collectors' guide needs to use photographs of the beanie babies, and needs to be exhaustive. Thus, the fact that PIL used photographs of every beanie baby in existence (each separately registered, it should be noted) did not preclude a finding of fair use. Pet. App. at 13a-15a.

Although it had already performed the analysis, described above, relevant to the four statutory fair use factors set out in § 107, the court next turned to the specific statutory language of the factors. Applying that language to the specific facts of this case, the court simply found that certain of the factors did not add anything helpful to the analysis that had already been considered based upon the purpose and principles of fair use.

In its consideration of the statutory text, the Seventh Circuit quoted the four factors, verbatim, and indeed quoted almost the entire text of Section 107. Pet. App. at 15a-16a. The court made clear that the four factors had to be considered as part of the fair use analysis, quoting the statutory language that "factors to be considered *shall include*" the four factors. Pet. App. at 15a (emphasis added).[2] After quoting the statutory factors, the Seventh Circuit proceeded to consider the statutory language in light of the specific facts of this case, as well as the extensive analysis already considered by the court earlier in the decision.

1. The first factor. The court found the general language of the statutory text of the first factor, the purpose

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2 The mere fact that the court did correctly cite and consider the factors, even if the court had somehow misapplied the factors (which the court did not), should be fatal to the Petition. Supreme Court Rule 10 ("A petition for a writ of certiorari is rarely granted when the asserted error consists of . . . the misapplication of a properly stated rule of law").

and character of the use, to be unhelpful other than to express a preference for non-commercial works. Pet. App. at 16a. Petitioner argues that in doing so, the court "refused to give credence to the *fact* that this factor weighs against a finding of fair use." Pet. at 15 (emphasis added). This argument fails for at least two reasons.

First, the court had already extensively reviewed the first factor in determining that a reasonable jury could find PIL's collectors' guides were works of commentary and criticism, a fact highly relevant to, if not dispositive of, the first factor. Pet. App. at 8a-13a. In light of this determination and this Court's admonition in *Campbell*, it is unsurprising that the court found the commercial nature of PIL's guides to be of little importance.

As this Court has made clear, the commercial or non-commercial educational purpose of a work is only part of the first factor inquiry, and is of especially little importance where the use is for the purpose of "news reporting, commentary, criticism, teaching, scholarship, and research, since these activities 'are generally conducted for profit in this country.'" *Campbell*, 510 U.S. at 584 (1994)(quoting *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 592 (1985)(Brennan, J., dissenting)).

In this case, the Seventh Circuit noted extensive elements of criticism and commentary in PIL's collectors' guides, analogizing their relationship to Petitioner's works to the relationship between book reviews and books. Pet. App. at 8a-13a. Thus, the court considered the commentary and criticism purposes of the collectors' guides, and considered their commercial nature. Indeed, all of the court's fair use analysis is informed by its recognition that the collectors' guides are works of commentary and criticism, including the court's determination that the commercial nature inquiry of the first factor is "empty" on

the facts of this case. This is all that is required of the Court by the Copyright Act.

Second, regarding Petitioner's characterization as a "fact" that the first factor weighed against a finding of fair use, the court purposefully refused to make the determination that this factor, in isolation, weighed against a finding of fair use. Positing the contrary conclusion as a purported "fact" provides no support for the proposition that the court failed to consider the first factor; it does nothing more than state that Petitioner disagrees with the court's consideration. Where, as here, there has been a remand for trial, it is certainly not yet a "fact" that the first factor weighs in either party's favor.

2. The Second Factor. The Seventh Circuit also found the second factor, the nature of the copyrighted work, to be of little importance as applied to the facts of this case. Pet. App. at 16a. As with the first factor, Petitioner's real problem with the court's decision is not that the Seventh Circuit failed to consider the second factor, but that Petitioner disagrees with the court's determination of the weight to be given that factor as applied.

Also similar to the court's first factor inquiry, it is unremarkable that the Seventh Circuit would find the second factor to be of little importance once it recognized the criticism and commentary purpose of the collectors' guides. As this Court has explained in the context of parody, another form of criticism and commentary, the second factor "is not much help in this case, or ever likely to be of much help in separating the fair use sheep from the infringing goats in a parody case, since parodies almost invariably copy publicly known, expressive works." *Campbell*, 510 U.S. at 586. Similar to parodies, the criticism and commentary of collectors' guides are routinely directed at works of creative expression. The Seventh Circuit's

refusal to weigh this factor against a finding of fair use is both unremarkable and correct.

3. The Third Factor. The court next turned to the third factor, the amount of the copyrighted work copied in relation to the purpose of the use. Noting Petitioner's complaint that PIL's collectors' guides contained photographs of each entire Beanie Baby, the court found this to be of little importance. Pet. at 16. The court based its conclusion on the commonsense fact that a collectors' guide for a collection of visual works such as Petitioner's sculptures needs to use photographs of the entire object, and must be comprehensive, in order to effectively comment on the object. Pet. App. at 13a-16a. Based upon this obvious proposition, the court found that the mere fact that PIL used photographs of the front of each entire Beanie Baby did not, as a matter of law, weigh against a finding of fair use. Pet. App. at 16a.

Petitioner acknowledges that copying a work in its entirety does not preclude a finding of fair use. Pet. at 16, n.3. Thus, it appears that even Petitioner admits that the Seventh Circuit correctly considered the third factor, but again takes issue with the outcome of that consideration, complaining that the court "radically redefin[ed] the inquiry as turning on whether the copying went further than necessary to produce a 'marketable' product." Pet. at 17. This supposed "radical redefinition" is nothing more than an obvious clarification. As noted above, this Court has recognized that criticism and commentary is usually done for profit. Fair use would amount to a sham if it allowed only the amount of copying necessary to produce an *un*marketable work of criticism and commentary. No doubt this is a result that Petitioner would welcome, but it is repugnant to the history and purposes of the fair use privilege and the Copyright Act.

4. The Fourth Factor. Finally, turning to the fourth factor, the effect of the use upon the potential market for or value of the copyrighted work, the Seventh Circuit referred back to the earlier part of its opinion, in which it repeatedly noted that criticism and commentary such as that in book reviews and PIL's collectors' guides made complementary use of copyrighted works, as opposed to substitutional use of the works, and was therefore likely to increase, rather than decrease, the value of the works. Pet. App. at 5a-9a, 16a.

The court also noted that even to the extent *criticism* of a work may diminish sales of that work, such harm is not recognized under the fourth factor. Pet. App. at 16a. This is equally true of any alleged harm to the market for "licensed" collectors' guides, which Petitioner claims is a derivative market for its copyrighted Beanie Babies.[3] As the Seventh Circuit recognized and this Court has noted in the context of the fourth factor, however, "there is no protectable derivative market for criticism." *Campbell*, 510 U.S. at 592. Nor can Petitioner gin up such a market by forcing small publishers to pay licensing fees for their fair use collectors' guides under threat of expensive litigation. *See Castle Rock Entertainment, Inc. v. Carol Publishing Group*, 150 F.3d 132, 145 n.11 (2d Cir. 1998).

As shown above, the Seventh Circuit did not hold that the four statutory fair use factors are irrelevant as a matter of law, or otherwise fail to consider those factors. Instead, the court engaged in a classical fair use analysis, recognizing that there was at least a question of fact as to whether PIL's collectors' guides were works of commentary

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3 Notably, Petitioner failed to introduce *any* evidence of actual harm to sales of its "licensed" collector's guides.

and criticism, the heartland of fair use, and therefore found that none of the arguments advanced by Petitioner mandated a finding of no fair use as a matter of law. Upon close examination, Petitioner's real complaint is not that the court failed to consider the four factors, but that the court did not weigh the factors, individually, in the manner urged by Petitioner. This Court has warned, however, that the factors are not to be treated this way, "in isolation, one from another." *Campbell*, 510 U.S. 569, 578. The first part of the question presented by the Petition is, therefore, not supported by the Seventh Circuit's opinion.

B. The Court Did Not Hold That Fair Use Allows Any Amount of Copying Necessary To Compete Against the Copyrighted Work In the Market

Petitioner repeatedly asserts that the Seventh Circuit replaced the statutory factors with a new bright-line, categorical rule that allows *any* claimed fair use that competes in the market against a copyrighted work (or derivative works based thereon) to copy as much of the protected work as is necessary to create a marketable product. Pet. at i, 19-20. As noted above, the first part of this characterization (that the court ignored the statutory factors) is simply untrue. Turning to the alleged replacement test, Petitioner does not offer a single citation to the court's opinion showing where the court created this phantom test. Upon examination of the opinion, the reason for this lack of citation becomes evident: the phantom test is not a creation of the Seventh Circuit, but is a straw man, cobbled together by Petitioner from bits of dicta and analyses taken out of context.

As discussed above and as Petitioner admits (at least in one part of its Petition), the Seventh Circuit's focus on the marketability of PIL's collectors' guides is relevant to the

third factor – did PIL copy more than was necessary to achieve its criticism and commentary purpose. Pet. at 17. The court's focus on marketability is not a radical expansion of fair use; it merely states the obvious. A work of criticism and commentary can hardly be said to have achieved its purpose if it is unmarketable and nobody reads it.

Nothing in the court's opinion, moreover, expands this question of marketability into a bright line rule applicable to any use that competes with the copyrighted work or derivatives. Rather, on the specific fact of this case the court held that a reasonable jury could find that PIL's collectors' guides were works of commentary and criticism, and therefore could reasonably find the guides to be fair use of Petitioner's stuffed animals if PIL used no more photographs of the stuffed animals than necessary to create a viable work of commentary and criticism. Thus, the second part of the question presented by the Petition is not supported by the Seventh Circuit's opinion.

II.
THE SEVENTH CIRCUIT'S DECISION DOES NOT CONFLICT WITH THIS COURT'S PRECEDENT OR THE PRECEDENT OF THE VARIOUS CIRCUITS

In an attempt to create the illusion of worthiness for certiorari and distract this Court's attention from the fact that the opinion below was an unremarkable denial of summary judgment on fair use, Petitioner asserts that the court's opinion creates a conflict among the courts. This assertion, which takes up the vast bulk of the Petition, is easily disposed of.

Petitioner's claim that the Seventh Circuit's opinion conflicts with the precedent of this Court and of the various circuit courts is based entirely on the premise that the Seventh Circuit failed to analyze the statutory fair use

factors. Pet. at 12-23. Petitioner therefore plods on for eleven pages, citing case after case in which courts have analyzed the statutory factors in making a fair use determination. As demonstrated above, however, the Seventh Circuit *did* consider the statutory factors; Petitioner's premise is thus entirely false and unsupported by the court's opinion. The opinion below simply does not conflict with any of the cited cases on this point.

III.
THE INTERLOCUTORY NATURE OF THE SEVENTH CIRCUIT'S DECISION MILITATES AGAINST GRANTING THE PETITION

While not dispositive, this Court has long followed the general rule that it "should not issue a writ of certiorari to review a decree of the circuit court of appeals on appeal from an interlocutory order, unless it is necessary to prevent extraordinary inconvenience and embarrassment in the conduct of the cause." *American Construction Co. v. Jacksonville, T. & K.W. Railway Co.*, 148 U.S. 372, 384 (1893). Indeed, the lack of finality of the judgment below may, alone, be a sufficient ground to deny the writ of certiorari. *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 258 (1916).

In this case, the Seventh Circuit did not decide the issue of fair use. Instead, noting the complexity of the factual record (which necessitates fair use analysis of ten different versions of three different publications), the court reversed the district court and held that sufficient questions of fact were raised to warrant giving the question of fair use to the jury. Pet. App. at 9a, 19a. The case was thus remanded for further proceedings. *Id.* Without having any final judgment on fair use, this case is not in an appropriate posture for grant of the Petition.

CONCLUSION

For the foregoing reasons, Respondent respectfully requests that this Honorable Court deny the Petition.

Respectfully submitted,

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December 4, 2002

Supreme Court, U.S.
FILED
DEC 19 2002
OFFICE OF THE CLERK

No. 02-727

IN THE

Supreme Court of the United States

TY INC.,

Petitioner,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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STATEMENT PURSUANT TO RULE 29.6

Petitioner's corporate disclosure statement was set forth at page *ii* of its Petition for a Writ of Certiorari, and there are no amendments to that statement.

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The petition for certiorari established that this case presents an important and recurring question of federal copyright law on which the circuits are now divided. Holding that the Congressionally mandated fair use factors are "empty" and otherwise irrelevant, the Seventh Circuit has divined an economics-based, non-statutory right for third parties to use as much copyrighted material as they need to compete in the marketplace against copyrighted works or licensed derivative works. No other court has ever recognized such a right, and in fact this Court and every other court that has been confronted with questions of fair use have consistently held that the four statutory factors must be considered and weighed in every case, which is precisely what the Seventh Circuit refused to do.

The question presented is vitally important. The Seventh Circuit's holding substantially and immediately undermines the ability of copyright holders to license derivative works. Indeed, the *direct effect* of the Seventh Circuit's marketability standard, which respondent openly embraces, is to place licensed derivative works into direct competition with publishers such as respondent. The very point of copyright, by contrast, is to grant copyright holders a limited monopoly in the copyrighted works and derivatives thereof — *i.e.*, so that the holder need not compete against other persons using the copyrighted materials. Indeed, that is the overriding consideration that motivates the creation of new copyrightable works. "The market for derivative works is an economically important part of the copyright owner's market, and therefore an important part of the incentive that drives the copyright system." 1 William F. Patry, *Copyright Law and Practice* 773 (1994). *See also Campbell v. Acuff-Rose Music*, 510 U.S. 569, 593 (1994) ("the licensing of derivatives is an important economic incentive to the creation of originals"). The Seventh Circuit's decision runs directly contrary to the statutory scheme because it grants third parties a statutory right to use the copyrighted material without paying the cost of a license, thereby making it all but impossible for a copyright holder such as petitioner to find

persons willing to pay a fee to license derivative works. Respondent notably disputes *none* of this.

The arguments respondent does offer in opposition to certiorari are unavailing. Preliminarily, respondent's contentions are all rooted in the same false syllogism that lies at the heart of the Seventh Circuit's decision. Respondent claims that the fair use doctrine confers not merely the right to use so much of the amount of copyrighted material as is necessary to engage in commentary or criticism, but the far more expansive right to use as much copyrighted material as is necessary to create a "marketable" product (which necessarily encompasses the right to *compete* against the copyrighted work or a derivative thereof). That holding is completely antithetical to the fair use doctrine as developed by Congress and the courts and the underlying purposes of copyright law.

Nor is there merit to respondent's two specific arguments against certiorari. First, respondent makes a passing attempt to dispute that the Seventh Circuit did, in fact, adopt a marketability test. But the court of appeals' decision is plain on its face, as respondent later admits. Second, respondent contends that the Seventh Circuit's marketability standard can be rationalized under the four factors Congress identified in the statute. But, as the district court concluded and the Second Circuit has held in indistinguishable circumstances, each factor weighs squarely against a finding of fair use in this context. Nor are there countervailing considerations. That the appellate court's ruling presents a conflict among the circuits is also plain given that the Seventh Circuit has specifically granted respondent's books the right to compete against works licensed by petitioner, which competition is, without question, a ground for *rejecting* a claim of fair use according to every other court to confront the issue.

1. Respondent's brief in this Court, like the Seventh Circuit's decision, rests on two principles: (i) that the fair use doctrine permits the use of copyrighted material in works of "commentary and criticism"; and (ii) that its collectors' guides can be characterized as such in some respects. *See* BIO 5-6;

Pet. App. 8a-11a. From these points, both respondent and the Seventh Circuit derive the rule that a third party has the right to use as much copyrightable material in its works of commentary or criticism as is necessary to *compete* with the copyrighted work or a derivative thereof. Respondent thus claims it is "obvious" that "if fair use allows, as it must, a *certain amount of copying* for the criticism and commentary purposes of a collectors' guide, it must allow *as much as is necessary* to make the guide marketable." BIO 2 (emphases added). When a litigant claims that a proposition of law relating to an established doctrine with a century-long pedigree is "obvious," but it is notably unable to find a single citation in support of that proposition (even in the treatise authored by its own counsel), it is almost certainly "obviously wrong." That is true here.

Take respondent's own examples: book reviews and parodies, both prototypical instances of "fair use." No one could seriously contend that a book review author has the right to copy enough of the book in order to compete with the book itself, a movie made as a "derivative" of the book, or an authorized anthology that included the book and other works of criticism. Similarly, no one could contend that a parody may include enough of a song in order to compete with the song, a score derived from the song, or a parody that the song's own author created. Rather — and this is the crux of the legal error in the Seventh Circuit's decision — the Copyright Act permits the copying of only so much of the copyrighted material as is necessary to engage in the type of "fair use" in question. *See Campbell*, 510 U.S. at 586-88. As the district court quite properly stated what was then settled law, fair use "does not grant PIL the right to use as much copyrighted material as it needs to make its product commercially popular." Pet. App. 45a.

The supposed form of fair use in this case is a work of "commentary or criticism." To the extent the statutory factors were satisfied, respondent would have the right to use petitioner's copyrighted material in order to produce a work of "commentary or criticism." But that is a *very* different

proposition than the one the Seventh Circuit embraced. Accepting for the moment that a collectors' guide can in some circumstances be characterized as a form of "commentary or criticism" (although many times it will not be, as when the "guide" includes nothing but unelaborated photographs of the copyrighted works), it makes no sense to conclude, and other circuits have refused to hold, that third parties have not merely the right to use sufficient copyrighted material as is necessary to "comment" or "criticize" but also the right to compete against licensed collectors' guides.

It makes no difference that, as the Seventh Circuit said and respondent repeats, "works of criticism and comment *generally* make complementary (or transformative, in first factor terms), as opposed to substitutional (or superseding, in first factor terms) use of the underlying work." BIO 5-6 (citing Pet. App. 6a-8a) (emphasis added). This is because a book review generally encourages or discourages the purchase of the book; it doesn't replace the book itself. The crux of the Seventh Circuit's reasoning, by contrast, is that fair use now gives third parties precisely the right to engage in "substitutional" commentary or criticism. Publishers like respondent now can use as much of the copyrighted work as they need to compete with — and thus substitute in sales for — derivative works.

The critical, uncontested finding in this case — and the one that makes respondent's suggestion of a remand for trial to determine if its works are non-infringing "commentary or criticism" totally unnecessary — is the district court's determination that respondent's use of hundreds of color photographs of petitioner's protected works goes "*far beyond* merely identifying their basic outline for the transformative purposes of commentary or criticism." Pet. App. 42a (emphasis added). In reaching that conclusion, the district court relied on the Second Circuit's decision in another infringement suit against

the same respondent: *Twin Peaks Products v. Publications International*, 996 F.2d 1366 (2d Cir. 1993).[1]

Respondent says that the court of appeals "noted that in order to effectively *comment* on the beanie babies (which are, after all, visual works), a collectors' guide needs to use photographs of the beanie babies, and *needs to be exhaustive*." BIO 6-7 (emphasis added). Later, respondent says that the court of appeals "based its conclusion on the commonsense fact that a collectors' guide for a collection of visual works such as Petitioner's sculptures needs to use photographs of the entire object, *and must be comprehensive*, in order to effectively *comment* on the object." BIO 10 (citing Pet. App. 13a-16a). But the Seventh Circuit did not, at the cited pages or anywhere else, reach that conclusion expressly or impliedly. The court of appeals did not contend, and no one seriously argues, that it is not possible to comment on or criticize Beanie Babies without including full-color photographs of every one of them. Indeed, as noted, the district court held precisely to the contrary and the Seventh Circuit did not disagree. Instead, the court of appeals reasoned (on the very pages respondent cites) that

> a collectors' guide, *to compete in the marketplace*, has to be *comprehensive*. Given that Ty can license (in fact has licensed) the publication of collectors' guides that contain photos of all the Beanie Babies, how could a competitor forbidden to publish photos of the complete line *compete*?

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1. Nor would this Court's resolution of the question presented be assisted by a remand for trial on whether respondent's use is "commercial." Contra BIO 9. Of course it is: that was the Seventh Circuit's entire point — to ensure that respondent could produce a "marketable" guide. As to the procedural posture of this case generally, certiorari is warranted so long as the court of appeals has finally articulated its legal standard, as in this case. *See, e.g.*, *Morgan v. AMTRAK*, 232 F.3d 1008 (9th Cir. 2000) (remanding for further proceedings with respect to limitation period on Title VII claims and issues relating to hostile work environment claims), *aff'd in part and rev'd in part*, 536 U.S. 101 (2002).

Pet. App. 13a-14a (emphases added). It is this right to compete, which the Seventh Circuit has conferred in a substantial departure from the precedents of this Court and other circuits, that makes this case certworthy beyond a shadow of a doubt.

2. Respondent does not dispute that the Seventh Circuit's holding that the fair use doctrine confers a right to compete is a substantial and important departure from settled copyright law justifying certiorari. Instead, it turns to pure hyperbole, calling this holding "a figment of Petitioner's imagination, created from scraps of dicta and analyses taken out of context" (BIO 1) and a "phantom test" (*id.* 12). For all the reasons just described, that is simply wrong; the question presented by the petition goes to the heart of the Seventh Circuit's analysis. The court of appeals itself set forth its inquiry as "whether PIL copied more than it had to in order to produce a *marketable* collector's guide." Pet. App. 13a (emphasis added). Any doubt is resolved by respondent's own subsequent characterization of the decision. BIO 6 ("[T]he court noted that *the fair use determination turned upon* 'whether PIL copied more than it had to in order to produce a marketable collectors guide.'" (emphasis added)); *see also id.* 2 (decision rests on the view that fair use "*must allow* as much [copying] as is necessary to make the guide marketable" (emphasis added)).

It is also clear that the Seventh Circuit abandoned the four statutory factors which, as respondent does not dispute, Congress provided, and other courts have faithfully held, "shall" be considered in any fair use case. 17 U.S.C. § 107.[2] The court of appeals said flatly that the statutory factors are "not illuminating." Pet. App. 15a. It said that a copyright holder can "get *nowhere* in defending [a] judgment [of infringement] by

2. Not only is respondent's view that "Congress did not, as Petitioner inaccurately asserts, 'codify' fair use" (BIO 4) irrelevant, it is simply wrong. "The statutory formulation of the defense of fair use in the Copyright Act reflects the intent of Congress to codify the common-law doctrine." *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 549 (1985).

arguing that some or *even all* of [the statutory factors] lean against the defense of fair use." *Id.* 16a (emphasis added). It called the first two factors "empty." *Id.* It said the third factor is "inapplicable." *Id.* And it deemed the fourth factor irrelevant other than to "glance[] at" the distinction between substitute and complementary copying. *Id.* Not even respondent can bring itself to recharacterize the decision below entirely, as it asserts that the Seventh Circuit deemed the statutory factors "unhelpful" (BIO 8) and "refus[ed] to weigh" them (*id.* 10).

The Seventh Circuit's unprecedented departure from settled law is already recognized in the literature as well. That is the conclusion of the *Copyright Law Journal*, as quoted in the petition (at 20). And the *New York Law Journal* recognizes that the decision below employs an "economic" approach to fair use that "dismisse[d] as 'not illuminating'" the statutory factors in Section 107. Lewis R. Clayton, *Intellectual Property Litigation*, N.Y.L.J., June 27, 2002, at 3.

Indeed, the departure from the statutory standard and cases faithfully applying it could not be any more dramatic, for the critical consideration on which the Seventh Circuit relied — that respondent be able to compete against derivative works licensed by petitioner — is routinely held by other courts to weigh *against* a finding of fair use, not in favor of it. Respondent goes so far as to contend that "any alleged economic harm to [the derivative] market is *irrelevant* to the fair use analysis." BIO 6 (emphasis added). This Court, by contrast, has determined that fair use copying may not have a "substantially adverse impact" on the market for derivative works. *Campbell*, 510 U.S. at 590. The Second Circuit similarly holds, in circumstances indistinguishable from this case, that such economic harm weighs against fair use. *Twin Peaks*, 996 F.2d at 1377; *Castle Rock Entertain. v. Carol Publ'g Group*, 150 F.3d 132, 145 (2d Cir. 1998).

3. Nor can respondent escape the conflicts created by the Seventh Circuit's decision on the theory that the decision below can be rationalized with the four fair use factors as applied by

other circuits and this Court. Respondent claims that the first factor — the nature of the allegedly infringing use — is supposedly "of especially little importance where the use is for the purpose of 'news reporting, commentary, criticism, teaching, scholarship, and research, since these activities are generally conducted for profit in this country.' " BIO 8 (quoting *Campbell*, 510 U.S. at 584 (internal quotations omitted)). Respondent's quotation from *Campbell* is taken seriously out of context, for the Court there merely rejected a *per se* fair use test that looked only to the commercial inquiry under the first factor. The truth is that respondent's use is commercial and non-transformative, so that the first factor weighs against finding fair use. *See* Pet. 15.

Respondent similarly addresses the second factor — the nature of the copyrighted work — by reference to "the criticism and commentary purpose of the collectors' guides." BIO 9. It notes that most *parodies* target publicly known, expressive works. *Id.* But the simple answer is that this case does not involve a parody, and the nature of the copyrighted work is a useful tool "in separating the fair use sheep from the infringing goats" (*Campbell*, 510 U.S. at 586) in the context of supposed commentary and criticism, which are *not* intrinsically directed at expressive works. Indeed, the Second Circuit has, on at least two occasions, considered and weighed the second factor against finding fair use when dealing with works of commentary. *Twin Peaks*, 996 F.2d at 1376; *Castle Rock*, 150 F.3d at 143-44.

Regarding the third factor — the amount of the copyrighted work that is copied — respondent simply repeats its assertion that "a collectors' guide for a collection of visual works such as Petitioner's sculptures needs to use photographs of the entire object, and must be *comprehensive*, in order to effectively comment." BIO 10 (emphasis added). Respondent notably abandons the Seventh Circuit's reasoning, which addressed the individual photos — i.e., that no one would ever seek to copy "part" of a single Beanie Baby toy (Pet. App. 16a) — a fact that, as the petition demonstrated (at 16), hardly justifies making

an infringing copy of the whole thing. Further, as the district court found and the Seventh Circuit did not dispute, it manifestly *is* possible for respondent to comment on or criticize Beanie Babies without including full-color photos of each of them. *See supra* at 3-6.

Finally, respondent argues that the fourth factor — the effect of the use on the market for the protected work — is irrelevant because a copyright holder's monopoly does not extend to works of criticism and commentary. BIO 11. Those fair uses, it explains, make "complementary use of copyrighted works, as opposed to substitutional use of the works, and [are] therefore likely to increase, rather than decrease, the value of the works." *Id.* But petitioner is not attempting to corner the market on commentary or criticism; and respondent's guide books are substitutional rather than complementary. A collection of full-color photographs of petitioner's copyrighted toys *is* a protected derivative work (*see* Pet. App. 9a (Seventh Circuit's acknowledgement of that proposition)), and respondent's books unquestionably undermine that market. Indeed, in the Seventh Circuit such books have a statutory right to undermine that market. Respondent cannot escape that fact by labeling its publications as "collectors' guides," much less as "commentary or criticism." In fact, this Court has ruled that when a work has a "complex character, with effects not only in the arena of criticism but also protectible markets for derivative works, . . . the *law looks beyond the criticism to the other elements of the work*," and evidence of substantial harm to the derivative market "would weigh against a finding of fair use." *Campbell*, 510 U.S. at 592-93 (emphasis added). The Second Circuit has also correctly recognized that, although an author "cannot preserve for itself the entire field of publishable works that wish to cash in on the [work's] phenomenon," the author "may rightfully claim a favorable weighting of the fourth fair use factor with respect to a book that reports the plot in such extraordinary detail as to risk impairment of the market for the copyrighted

works themselves or derivative works that the author is entitled to license." *Twin Peaks*, 996 F.2d at 1377.[3]

CONCLUSION

For the foregoing reasons, as well as those set forth in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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3. Petitioner notes that the Court may wish to call for the views of the Solicitor General in this case. In its October 2002 Term, the Court has issued such invitations in a number of important intellectual property cases, including No. 02-355, *Southern Building Code Congress Int'l. v. Veeck*, a copyright matter in which, although the en banc Fifth Circuit did not reach the question, the fair use doctrine plays a prominent role as a principal alternative ground urged by the respondent in his defense. *See Veeck v. Southern Building Code Congress Int'l*, 293 F.3d 791, 823-25 (5th Cir. 2002) (Wiener, J., dissenting for five members of the court). *See also* No. 02-39, *Micrel v. Linear Tech. Corp.* (patents); No. 02-197, *Monsanto Co. v. Bayer CropScience* (same); No. 02-429, *Dethmers Mfg. v. Automatic Equip. Mfg.* (same).